

Issues in Employment and Poverty

Discussion Paper

23

Employment-poverty linkages and pro-poor growth: A synthesis paper based on country studies of Bangladesh, Bolivia and Ethiopia

by

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Preface

As progress in achieving the Millennium Development Goal of reducing poverty by half by the year 2015 appears to have been rather slow in some countries and regions, the search is on for mechanisms to achieve a faster reduction in poverty. The centrality of productive and decent employment in achieving pro-poor growth and accelerating the rate of poverty reduction is by now widely recognized. It is against this background that the International Labour Organization (ILO), the Swedish International Development Cooperation Agency (SIDA), and the United Nations Development Programme (UNDP) have been collaborating in undertaking research and policy oriented studies on the topic of linkage between economic growth, employment and poverty. SIDA supported a number of country studies on this linkage and on the issue of operationalizing pro-poor growth. The present paper provides a synthesis of studies conducted on Bangladesh, Bolivia, and Ethiopia.

The present paper starts by providing an overview of the trends in economic growth, employment intensity of growth, and poverty in the three countries under study. It then explores the potentials that exist for making growth more pro-poor in those countries, and analyses the constraints that they face. Based on that analysis, the paper provides a synthesis of the strategies for achieving the potential pro-poor growth as identified in the relevant country studies.

It is hoped that by presenting the detailed findings from six in-depth country studies in a summarised and synthetic form, the present paper will serve the purpose of reaching a wide audience including policy makers and other stakeholders.

Geneva, July 2006

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Executive Summary

As societies and countries have embarked on their war on poverty, three things have become quite clear - sustained economic growth is crucial for poverty reduction; economic growth has to be pro-poor, if it has to make a dent on poverty; and productive employment is essential for pro-poor growth. These conclusions have been borne out both by analytical as well as empirical work. The empirical evidences have been contributed to by a set of country studies undertaken through collaborative efforts by the International Labour Office (ILO), Swedish International Development Agency (SIDA) and the United Nations Development Programme (UNDP). All these studies have helped us in enhancing our understanding of the growth-employment-poverty nexus and also in identifying the necessary policy instruments to achieve the desired results. The present paper presents a synthesis of the two sets of ILO/SIDA country studies – six in total - on **Bangladesh, Bolivia** and **Ethiopia** focusing on how to make economic growth pro-poor.

Bangladesh, Ethiopia and Bolivia – the three countries included in the present synthesis- not only represent countries in three different continents with different sizes of population, but they also reflect quite a diverse situation with regard to economic growth, income distribution, and poverty. Thus while the growth rate in these three countries has been, more or less, moderate, while Bangladesh experienced rapid growth in employment in non-farm sector, such growth has been rather rapid till 1997 in Bolivia after which it fell; and it was either slow or negative in Ethiopia. In term of poverty reduction, it has been falling in Bangladesh, fell till 1999 and then rose in Bolivia and remained unchanged in Ethiopia.

The experiences of Bangladesh with regard to growth and poverty reduction indicate despite higher economic growth rates, the rate of poverty reduction in the late 1990s slowed down, compared to the first half of the decade. And the sectoral composition of employment in the country was not changing in a direction that could support a high rate of poverty reduction. On the whole, the trends in employment and labour market developments were consistent with a slower rate of poverty reduction during the second half of the 1990s, although the economic growth rate was slightly higher. And one can then suspect that growth in Bangladesh may have become less pro-poor since the second half of the last decade.

In the Bolivian case, to start with, the overall economic growth rate was moderate during the 1990s. But the poor did not get a good share of even this growth rate, primarily because sectors with lesser employment intensity were growing while such growth was not taking place in sectors with high employment intensity. It thus appears that even though during 1991-99, modest economic growth in Bolivia was associated with some poverty reduction, the real pattern of growth was not pro-poor.

Ethiopia's experiences in the 1990s highlight the case where moderate economic growth has failed to produce any significant reduction of poverty because the output growth was achieved through productivity and employment in agriculture was declining although output increased.

Employment intensity of economic growth is the principal link in the growth-poverty nexus. None of the country studies – Bangladesh, Bolivia and Ethiopia - found the

rate of employment growth satisfactory during the periods on which they primarily focus. Looking at the degree of employment intensity of growth, it is clear that in Bangladesh, it declined in manufacturing as a whole with considerable degrees of variations among sub-sectors and it has been fairly good in informal activities. In Bolivia, degree of employment was good, while it was poor in Ethiopia. Thus in Bolivia, in spite of good employment elasticity of growth, employment was not created because economic growth has been slow. In both Bangladesh and Ethiopia, the low employment elasticity of growth was reinforced by less than robust economic growth and inadequate incentives, resulting in low levels of employment.

In this context, if the issue of potentials for enhancing employment-intensity is explored, the case studies indicate that such potentials for Bangladesh exist in non-farm activities, particularly non-farm self-employment. The major constraints, however, are absence of required human skill, lack of access to capital and absence of efficiency in many non-farm activities. For Bolivia, potentials for enhancing employment-intensity exist in exports of non-agricultural products, service activities in urban informal sector, physical infrastructure; but the major constraints are low productivity in the urban informal sector, its illegal status and public expenditure on non-productive sectors. Such potentials exist for Ethiopia in non-farm employment and manufacturing activities (e.g. textiles, food and beverages) with strong linkages with the rest of the economy. The identified constraints are inadequate institutional support, policy environment and weak human capital and stagnant and low productivity in manufacturing.

Given the potentials for employment-intensive pro-poor growth and the constraints identified in the country studies – Bangladesh, Bolivia and Ethiopia – for pro-poor growth and poverty reduction, there are three distinct sets of policies and strategies:

- Policies that promote higher growth which, with favourable output elasticity of employment, increases employment and/or earnings of poor people. Such pro-poor growth alleviates poverty.
- Policies that change incentives in favour of more labour-intensive activities and techniques, thereby increasing employment and/or earnings of poor people. This also alleviates poverty.
- Policies that can directly enhance the capabilities of poor people through better access to basic social services – health, education, safe water, basic sanitation through reallocation of public expenditure. This will ensure the integration of poor people in the growth process as participants and as beneficiaries. They can also improve the welfare of poor people through social safety nets and income transfer to the poor. Faster growth facilitates this process but is neither necessary nor sufficient for this to happen.

Strategies for enhancing pro-poor growth through macroeconomic policies include macroeconomic stability, pro-poor measures, policies during crises to protect poor people; addressing the privatization issue from the perspective of poverty reduction, reforms in the external sector, policies to improve business environment and institutional reforms. These policies have been addressed by the country studies – e.g. pro-poor policies (Bangladesh), external sector reform (Bolivia), institutional reforms

(Ethiopia). In the ultimate analysis, employment-intensive pro-poor growth should ensure the following: the poorer people have more access to basic social services and productive resources; the rate of their income growth is higher than the rate of income growth of any other group and poor people are protected during shocks, vulnerabilities and crisis.

In terms of strategies for higher employment-intensity, some general conclusions do come out quite clearly from the three case studies. *First*, either slower growth or less than robust growth has been identified as a major cause of slow growth in employment (e.g. Bolivia and Ethiopia). *Second*, employment hostile incentive system also appears to be a major cause of slow employment growth in two cases (e.g. Ethiopia). *Third*, in the paths of poverty-alleviating employment growth, a number of issues have been raised – e.g. shift of labour from the agricultural to the industrial sector (Ethiopia); implications on employment because of firms' restrictions to entry (Bolivia), attraction of non-farm employment (Bangladesh). *Fifth*, the case studies have also raised the issue of the working poor, the large numbers of workers engaged in strenuous, long but non-remunerative labour - e.g. Bolivia and Ethiopia.

In the context of this overall perspective, several strategies for employment generation have been put forward in the country studies: agricultural growth (Ethiopia), rural non-farm activities (Bangladesh), labour-intensive exports (Bolivia), industrialization and manufacturing (Ethiopia), micro-enterprises and urban informal sector (Bolivia and Ethiopia), employment generation for women (Bangladesh) and public works and safety net programmes (Ethiopia). The country studies have also favoured dissemination of labour market information and recruitment channels (Bangladesh) and institutional aspects of employment policies (Bolivia and Ethiopia)

Strategies for integrating poor people into the growth process would encompass measures that would enhance their access to education, through skill formation, improve their access to productive resources including inputs and, finance and credit and other income-generating assets. Measures suggested by country studies include investment in human capital (Ethiopia), improved access to basic social services (Bangladesh and Ethiopia) and enhanced access to productive resources (Bangladesh, Bolivia and Ethiopia) and addressing HIV/AIDS (Ethiopia) and policies for groups at risk (Bangladesh and Ethiopia).

The country studies – Bangladesh, Bolivia and Ethiopia – have made good contributions to the economic growth-employment-poverty nexus through providing good account of overviews of the situation, identification of constraints and raising policy issues. The analysis as presented in the three country studies can be of immense use in other situations as well. The policy options will also find resonance in terms of replication in other economies. The issue of the need for good data and information for analysis and policy options, which have been highlighted in all six studies, is also true across the board.

In spite of all that the three country studies have achieved some further issues remain to be explored in greater detail; they include: the issue of integration of poor people into the growth process through access to basic social access as well as to productive

resources; the issue of gender in labour markets and also in employment, the issue of the incentive systems and the issue of globalization and its impact on economic growth, employment and poverty reduction.

1. Introduction

With human kind making impressive progress on several fronts over the years, persistence of poverty remains to be a pervasive problem in many regions of the world. The simple fact that more than 1.3 billion people on this planet live on less than one dollar a day (PPP\$) indicates the extent and the degree of the problem. And poverty does not limit itself to lack of income only, it is manifested in other dimensions of human lives. Thus in the developing world, more than 850 million people go hungry every night, more than 800 million adults are illiterate and more than a billion people do not have access to safe water. Furthermore, with the spread of HIV/AIDS, conflicts and environmental degradation, the faces and intensity of human deprivations are deepening. Apart from the incidence of absolute poverty, the extent of relative poverty or inequality is also increasing in many societies. It has been recognized that poverty represents a denial of human rights. It makes people destitute, destroys their self-respect and dignity and erodes their creativity.

The gravity of the situation has prompted the world leaders to adopt in the Millennium Summit of the United Nations General Assembly in 2000 the Millennium Declaration and also the Millennium Development Goals (MDGs). The MDGs represent a set of quantitative time-bound goals to reduce deprivations in basic areas of human lives. During the summit, nearly 190 countries of the world – both poor and rich – have committed to work towards the realization of the MDGs by 2015. Yet with 10 years to go, we know that progress towards the MDGs have been uneven across the world, there have been reversals in progress and huge deprivations yet remain. Thus while East Asia has been able to reduce its income poverty by half, the incidence of income poverty in Sub-Saharan Africa has increased from about 47 per cent in 1990 to 49 per cent in 1999. Because of HIV/AIDS, Botswana has lost 13 years in life expectancy over the decade of the 1990s. More than 500 million people in South Asia still live on less than one dollar a day (PPP\$).¹

As societies and countries have embarked on their war on poverty, three things have become quite clear:

- Sustained economic growth is crucial for poverty reduction
- Economic growth has to be pro-poor, if it has to make a dent on poverty
- Productive employment is essential for pro-poor growth.

These conclusions have been borne out both by analytical as well as empirical work.² The analytical work on the growth-employment-poverty reduction nexus strongly argues that the linkages between economic growth and employment, between employment and poverty reduction, and between economic growth and poverty reduction are neither direct nor automatic. Countries may experience high economic growth, but without resultant employment expansions. There can be a phenomenon of *jobless growth* in many economies with sources of growth being concentrated in a few high-productivity sectors without any forward and backward linkages with the rest of the economy. Similarly, the mere job creation without corresponding creation of

¹ These data are from UNDP (2005).

² For an analytical framework on these issues, please see Islam (2004) and Osmani (2002). For empirical work in these areas, please see Islam (2004) and Khan (2005).

adequate income will just produce *working poor*. Finally, it is not only the quantity, rather the quality of growth which is a crucial determinant whether it will be poverty-reducing.

The empirical evidence on these issues has also supported these analytical arguments. The experience of countries, which succeeded in reducing poverty significantly, indicates the importance of sustained high economic growth in achieving this result. However, empirical evidence has also highlighted that high economic growth by itself is not adequate, the pattern and sources of growth as well as the manner in which its benefits are distributed are extremely important for poverty reduction. Thus if growth is pro-poor, it resulted in poverty reduction. The country experiences have also shown that employment has been a critical element for pro-poor growth and poverty reduction.

These empirical evidences have been contributed to by a set of country studies undertaken through either their own initiative or through collaborative efforts by the International Labour Office (ILO), Swedish International Development Agency (SIDA) and the United Nations Development Programme (UNDP).³ For example, nine country studies were sponsored by the UNDP on the issue of *macroeconomics of poverty reduction* and seven country studies have been completed by the ILO/SIDA on *growth-employment-poverty nexus*. In total, there were thirteen country studies – ten in Asia, two in the Sub-Saharan Africa and one in Latin America.⁴

These case studies belong to two distinct sets. The UNDP studies consider the relationship between macroeconomic policies and poverty reduction and sometimes bring in indirectly the issue of employment strategies as a part of the macro framework. On the other hand, the ILO/SIDA studies look directly at the role of employment in the growth-poverty nexus. The three ILO/SIDA country studies on the employment-growth-poverty nexus on Bangladesh, Bolivia and Ethiopia have been followed up by further in-depth studies on how to make economic growth pro-poor. Most of these case studies used detailed models to identify the determinants of poverty at the household levels. They also have good discussions of broad policies for employment-led growth and poverty reduction.

All these studies have helped us in enhancing our understanding of the growth-employment-poverty nexus and also in identifying the necessary policy instruments to achieve the desired results. But it is important to compile and analyse this kind of evidence more systematically in order to make a case for an employment-intensive growth strategy. In other words, the nexus between economic growth, employment and poverty reduction needs to be fully articulated and substantiated.

With that objective in mind, this paper presents a synthesis of the latter two sets of ILO/SIDA country studies – six in total – on Bangladesh, Bolivia and Ethiopia focusing on how to make economic growth pro-poor. It starts with a discussion on the analytical linkages of the growth-employment-poverty nexus with a focus on the

³ For summaries of these studies, please see Islam (2004), Khan (2005) and Osmani (2005)

⁴ These countries are Armenia, Bangladesh, Bolivia, Cambodia, China, Ethiopia, India, Indonesia, Kyrgyzstan, Mongolia, Nepal, Uganda, and Vietnam. Both the UNDP and the ILO/SIDA studies covered three countries – Bangladesh, Indonesia and Viet Nam.

concept of pro-poor growth, followed by a brief overview of the three countries in terms of growth, employment and poverty reduction. The third section identifies the potential for employment-intensive and pro-poor growth, focusing on agriculture, rural non-farm activities, manufacturing and infrastructure. The paper then describes the role of economic policies in achieving the potential pro-poor growth and discusses the ability of poor people in integrating into the growth process.

2. Economic growth-employment-poverty reduction nexus: Role of pro-poor growth

In the economic growth-employment-poverty reduction nexus, whatever links of the nexus are chosen, the relationships are not automatic. In each link, there are certain conditions that need to be ensured. And those conditions can be influenced through policy interventions and pro-poor growth is a critical element in the overall framework.

2.1 Economic growth-poverty reduction linkages⁵

The discussion on the relationship between economic growth and poverty reduction should start with identifying causal mechanisms, or channels, that link the two. As poverty is multidimensional and reflects human capabilities failures – such as the capabilities to live a long and healthy life, to be knowledgeable and to lead a decent standard of living – two basic channels can be identified:

- *The social provisioning channel:* Growth-generated resources are utilised by the society to provide services to poor people so as to enhance their various capabilities.
- *The personal income channel:* Growth of the economy translates into higher personal income of poor people, who then utilise their income so as to enhance their capabilities.

The workings of both the channels are subject to variations. The extent to which growth-generated resources actually get to be utilised for the purpose of social provisioning can vary from society to society. And the extent to which growth of the economy translates into higher income of poor people can also vary. Both types of variations can underlie the observed variable relationships between the rate of growth and the rate of poverty reduction.

A crucial variable that determines the functioning of the personal income channel is employment. It is the quantity and quality of employment of poor people that determines how growth of the economy would translate into higher income of the poor. This might be called the ‘employment nexus’ between growth and poverty. It may be useful to deconstruct the nexus and discuss the economic growth-employment part of the nexus first, followed by the employment-poverty reduction part.

⁵ This section and the three following ones have drawn heavily on Osmani (2005).

2.2 Economic growth-employment linkage

Economic growth does not contribute to higher employment automatically. The extent to which an upward shift of the production possibility frontier enhances the employment potential – the latter being defined as the scope for improving the quality and quantity of employment - depends on the elasticity factor. The elasticity factor refers to the ability of any given growth of production to stimulate the growth of employment potential. The idea behind the concept of *output elasticity of employment* is that any given growth rate can be associated with different degrees of shift in employment potential depending on the nature of the growth process. The degree of elasticity would depend on three features of the growth process:

- *Sectoral composition of output*: The extent to which the growth of output is concentrated in the more labour-intensive sectors.
- *Choice of technique*: The extent to which more labour-intensive techniques are used, especially in the growing sectors.
- *Terms of trade*: The extent to which the internal and external terms of trade improve for the labour-intensive sectors.

2.3 Employment-poverty reduction linkage

In order to see how employment contributes to poverty reduction, it is useful to distinguish between poor people in the labour force and those who are not. Some among the latter group may have no one in the labour force to support them and they would need some form of social provisioning in order to alleviate their poverty. However, most of the poor people who are not in the labour force would actually be dependants of the first category of poor people, so that their conditions will be inextricably linked with each other. For analytical purposes, therefore, it is adequate to focus only on those among the poor people who are in the labour force.

The poor people in the labour force can in turn be divided into two groups: the unemployed poor and the working poor. As an empirical reality, it is fair to suggest that the unemployed poor would constitute a numerically insignificant category in the poor countries. The reason simply is that the vast majority of these countries do not have any social insurance mechanism, without which the poor cannot afford to remain unemployed. Thus the working poor would constitute by far the major segment of the poor in the labour force. It has been estimated that about 500 people in the developing world constitute the working poor. The critical issue with regard to the working poor is why they are poor even though they are employed. Two broad categories of proximate causes can be distinguished: *underemployment* and *low returns to labour*. In other words, the quantity and quality of employment determine whether employment would lead to poverty reduction.

Those who suffer from *underemployment* can be of two types:

- The *open underemployed*, i.e. those who work less than full time and hence cannot earn enough to rise above the poverty line.

- The *disguised underemployed* i.e. the Nurkse-Lewis type surplus labour – those who apparently work full time but at low intensity, within an institutional framework that permits both work-sharing and income-sharing.

Those who suffer from *low returns to labour* despite working full-time and at high intensity can be classified into three categories depending on the causes of low returns

- Those who work for very low wages because they have to compete with potential entrants (comprising the unemployed and the underemployed, and constituting a pool of surplus labour) who have very low reservation wages – the *surplus labour* syndrome.
- Those who work with poor skill, or poor technology, or inadequate complementary factors – the *low productivity* syndrome.
- Those who suffer from adverse terms of trade, either because of low product prices, or high input cost (including high cost of credit), or both – the *adverse terms of trade* syndrome.

To see what the underlying factors are, one might begin by noting the rather trivial fact that the condition of the poor will depend on their scope of earning higher income – either through greater quantity of employment or through higher returns to labour, or a combination of the two. This scope will obviously depend on factors affecting both the supply of and the demand for labour.

2.4 Economic growth-employment-poverty reduction linkages

In the ultimate analysis, economic growth will contribute to higher employment and through higher employment to reduced poverty on the basis of three factors:

- *The growth factor*: The rate at which the production potential of the economy expands, as represented by an upward shift of the production possibility frontier.
- *The elasticity factor*: The extent to which an upward shift of the production possibility frontier enhances the employment potential – the latter being defined as the scope for improving the quality and quantity of employment. In other words, we are concerned here with the elasticity of employment potential with respect to growth in production potential.
- *The integrability factor*: The extent to which the poor are able to integrate into economic processes so that, when growth occurs and the employment potential expands, they can take advantage of the greater scope for improving the quality and quantity of employment.

It may be useful to make some brief remarks on each of these underlying factors. Poverty reduction cannot be sustained unless an economy's production potential is expanded, as determined by the growth of its labour force, accumulation of human and physical capital, and technological progress. Only such an expansion can create

the basis for sustained increase in the incomes of everyone, including poor people. For a while, of course, redistribution of existing income can help alleviate poverty to some extent; and to the extent that this is possible without seriously compromising the growth potential of the economy, redistributive measures should certainly be undertaken. But it is clear that sustained increase in the income of poor people must be underpinned by sustained growth of potential output.

Given any shift in the production potential, the next parameter that has a bearing on the poor people's income and hence on their poverty status is the extent to which growth in output expands the scope for improving the quantity and quality of employment – in short, the employment potential. Thus, the greater the expansion of employment potential, the greater the opportunity for reducing underemployment and raising the returns to labour – the two proximate causes of poverty mentioned earlier. The growth elasticity of employment potential is therefore an important intermediate variable that shapes the extent to which the growth of the overall economy translates into higher incomes of poor people.

Of course, a high elasticity of employment does not necessarily entail higher incomes of the poor. All it does is to allow the working population as a whole to reduce their unemployment and underemployment and raise their returns to labour. In short, it expands the opportunities, generally. There remains the question, however, whether the poor are able to take this opportunity or whether it is grabbed mainly by the non-poor workers, or even whether the opportunities are seized at all. Much depends on whether the poor possess attributes that will enable them to integrate fully into the workings of an expanding economy. This is what we have termed the 'integrability' factor. This, on one hand, requires enhancing capabilities of poor people and on the other, requires improved access to productive resources. For the first, resources generated by higher growth have to be channelled to the public provisioning of basic social services (e.g. health services, education, access to safe water) to poor people. And for the second, they must have a larger access to productive resources such as land, inputs, credit.

2.5 Issue of pro-poor growth⁶

It is clear from the preceding analysis that while economic growth is indeed essential for sustained poverty reduction, any growth will not do the trick. Economic growth has to create employment opportunities for poor people and ensure that they can take advantage of those opportunities. The latter can happen only if resources from higher growth are channelled to public provisioning of basic social services for poor people in order to enhance their capabilities, if they have more access to productive resources and if the growth process ensures that they are integrated into the expanding globalized economy. If these conditions are met, poor people will increase their share in economic growth. In short, economic growth will be poverty reducing only if it is pro-poor.

Conceptually, the linkages between output growth, employment and poverty can be analyzed at both macro and micro levels. At the macro level, the linkage between poverty and income dimension and output growth can be conceptualized in terms of

⁶ For a detailed account of these issues, please see Islam (2004).

the average productivity of the employed work force which in turn gets reflected in low levels of real wages and low levels of earnings in self-employment. At the micro level of a household, the same linkage between poverty and employment operates through the type and low productivity of economic activities in which the earning members of the household are engaged, the low level of human capital of the members of the workforce, the dependency burden that limits participation in the workforce, and the mere availability of remunerative employment.

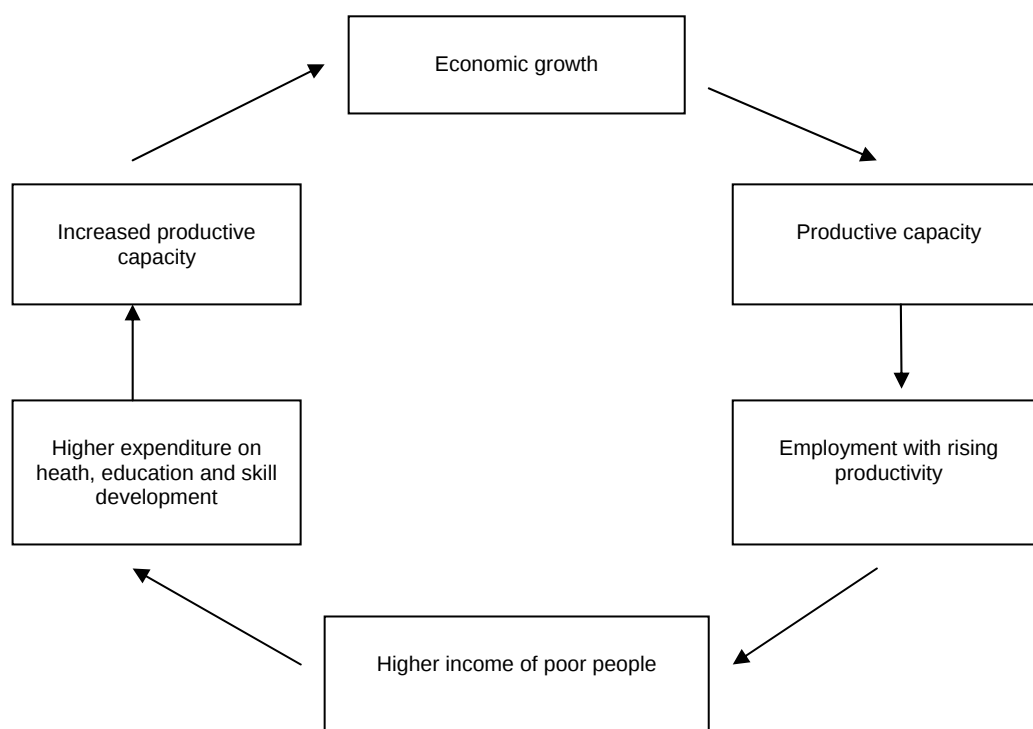
A low average productivity of the workforce can be due to deficiency of capital relative to labour and the use of backward technology. When the high rates of economic growth lead to sustained increase in productive capacity, employment opportunities with rising productivity are generated. This in turn allows for a progressive absorption and integration of the unemployed and underemployed into expanding economic activities with higher levels of productivity. In the process, poor people may be able to achieve higher productivity and increase their incomes in their existing occupations, or shift to new occupations involving higher levels of skills and/or better technology. The results of the process described above could be reflected in: (i) improved productivity of various sectors and occupations, (ii) a shift in the structure of employment towards occupations with higher levels of productivity, and (iii) increase in real wages, earnings from self-employment, and earnings from wage employment.

Higher levels of earnings resulting from the process mentioned above would enable workers to spend more on education and skill formation of their children, thus raising the productive capacity of the future workforce, and creating necessary conditions for achieving higher levels of economic growth. The process would thus complete the virtuous circle of economic growth leading to poverty reduction via growth of employment with rising productivity, and reduced poverty creating the possibility of further increases in productivity and higher rates of economic growth (**figure 1**). The kind of growth with such a virtuous circle in operation can be termed as pro-poor growth.

The preceding framework helps to not only to reiterate the hypothesis that for sustained poverty reduction, sustained economic growth is essential, but also to point out that it is the quality of growth, as well as its quantity, which is important. It also establishes that employment is a critical factor for ensuring the needed linkage between economic growth and poverty reduction. But equally importantly, it helps to explain that there is no invariant relationship between the rate of growth and the rate of poverty reduction

In other words, faster growth is not always accompanied by faster rate of poverty reduction, just as slower growth does not always entail slower rates of poverty reduction. The reasons for these variations are not yet fully understood. Why is it that rapid growth sometimes entails rapid reduction of poverty but sometimes rather modest rate of poverty reduction? How is it possible that even relatively modest growth sometimes goes hand in hand with relatively rapid reduction of poverty? If the goal of policy-making is to eliminate poverty in the shortest possible time, then it is important to understand what lies behind these variations.

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



Source: Islam (2004)

For example, why is it that the same rate of growth in per capita income is not always associated with the same rate of poverty reduction? One possibility is that the poverty alleviation effect of redistributive measures or direct employment-creation programmes (such as food-for-work) makes a difference. The preceding framework offers an alternative (but not mutually exclusive) hypothesis – namely that the difference is made by variations in the elasticity and the integrability factors that are associated with the growth process. From a policy perspective, it is important to know which hypothesis is empirically more relevant.

Another issue that the preceding analysis helps illuminate is especially relevant in an age of increasing globalisation. It is arguable that in a globalising world, the best way for a country to grow fast is to specialise in the sectors in which it has comparative advantage. And, since for a labour-abundant poor economy, such specialisation will necessarily lead to concentration on labour-intensive activities, it can be argued that rapid growth will automatically be accompanied by rapidly rising income of the working poor (leaving aside any transitional problems owing to reallocation of resources). But that does not always happen because of the integrability factor - poor people are not always well-equipped to take advantage of the expansion of employment potential. If not, then the mere pursuit of an appropriate growth strategy for a poor open economy will not be enough to make a dent on poverty.

The proposed framework represents an analytical structure that gives serious consideration to all three underlying factors that have a bearing on the growth-employment-poverty reduction nexus – namely, the growth factor, the elasticity factor and the integrability factor. This alternative, and in a sense more comprehensive, approach may reasonably be described as the employment-focussed strategy for poverty reduction. The relevance of this framework is not confined merely to those who are currently unemployed and seeking employment opportunities, it is also relevant to those who are currently working but poor and to the new entrants to the labour force. Indeed, one of the strengths of the proposed framework is that a single analytical framework is used to address the concerns of the unemployed, the working poor, and the new entrants of the labour force.

3. Economic growth, employment and poverty reduction: An overview of performance in Bangladesh, Bolivia and Ethiopia

Bangladesh, Ethiopia and Bolivia – the three countries included in the present synthesis- not only represent countries in three different continents with different sizes of population, but they also reflect quite a diverse situation with regard to economic growth, income distribution, and poverty. Drawing upon internationally comparable data, **table 1** provides a comparable snapshot of the situation in these three countries:

**Table 1: Economic, growth, distribution and poverty in three countries –
A summary of performance indicators**

Country	Population (in millions) 2002	Per capita income 2002		Annual per capita GDP growth rate (%) 1990-2002	Gini ratio In per capita consumption expenditures	Poverty indices in per capita daily expenditures of 1.08 PPP\$ at 1993 prices	
		2002 US\$	PPP \$			Head count	Gap
Bangladesh	138	380	1770	3.0	0.32	36.0	8.1
Bolivia	9	900	2390	1.6	0.45	14.4	5.4
Ethiopia	67	100	780	2.2	0.30	26.3	5.7

Source: World Bank (2003 and 2004)

- *First*, even though both Bangladesh and Ethiopia are least developed countries (LDCs) with Bolivia being a middle-income country, yet the range of per capita income as reflected in these three countries is quite remarkable with the per capita of Bangladesh being three times more than that of Ethiopia and that of Bolivia being nine times more.
- *Second*, In terms of economic growth experienced by these countries, the rate has been marginally diverse during the 1990s with Bangladesh representing moderate growth (3 per cent) with both Bolivia and Ethiopia representing slow growth (less than 2.5 per cent). Similar is the picture with regard to inequalities in expenditures with Bolivia representing the most non-egalitarian structure with Bangladesh and Ethiopia reflecting a more egalitarian system.
- *Third*, based on the one-dollar-a day figures, the poverty incidence is the highest in Bangladesh and at 36 per cent, it is more than twice than that in Bolivia at 14 per cent. Ethiopia's poverty incidence is in between Bangladesh and Bolivia. The poverty gap is also the highest in Bangladesh.

Even though table 1 provides an inter-country comparable assessment, it also masks a lot of issues. First, it does not reflect the latest situation in the countries since the data from country studies are more up-to-date. But more importantly, it may not provide a correct picture of poverty in the country. In table 1, the poverty incidences are measured, because for inter-country comparisons, in terms one-dollar-a day (PPP\$) and not in terms of national poverty lines. Second, it does not provide information in non-income aspects of human deprivations, e.g. deprivations in health and educational outcomes. Third, because of its static nature, it may not provide answers to some puzzling issues. For example, table 1 indicates that in terms of economic growth and consumption distribution, Bangladesh is better placed compared to the other two countries – Bolivia and Ethiopia. Yet in terms of poverty outcomes, it has the worst levels. A static analysis may not capture the fact that Bangladesh has started with an absolute level of poverty higher than the other two countries and even if it might have managed, through better growth arte and distribution, to reduce poverty significantly, yet its absolute poverty level may remain higher.

Therefore, in order to get a more objective and in-depth assessment of performance and outcomes with regard to growth, distribution and poverty reduction, a dynamic perspective is needed. Based on the data provided in the three country case studies, such a perspective is summarized in **table 2**. Needless to say that the actual trends are often more nuanced than can be summarized in one short table and the table needs to be complemented with in-depth explanations. In terms of dynamic assessment, table 2 not only focuses on growth, distribution and poverty alone – as is done in the static picture presented in table 1 – but it also brings in the performance in employment as a linking factor between growth and poverty.

3.1 *Growth, distribution employment and poverty in three countries – A dynamic assessment*⁷

From a dynamic perspective over time, as depicted in table 2, **Bangladesh** with a growth of 3 per cent in per capita GDP during the 1990s achieved a moderate rate of growth. Inequality in the country increased steadily. The most important, though perhaps still tentative, explanation of poverty reduction in Bangladesh is the rapid increase in remunerative employment in rural non-farm activities. Still it has been shown by simulation exercises that poverty reduction was significantly lower than what would be possible if the poor had maintained their share of incremental income.

Table 2 : Basic features of performance in growth, distribution, employment and poverty in three countries

Country	Growth	Distribution	Employment	Poverty
Bangladesh	Moderate	Rising inequality	Fairly rapid growth in rural non-farm sector	Falling
Bolivia	Moderate with fall in per capita income since 1999	Sharp inexplicable fall in rural Gini ratio since 1997 with urban Gini ratio rising since 1999	Rapid growth till 1997 and slow thereafter	Overall poverty fell till 1999 and then rose Urban poverty fell till 1999 and then rose. Rise in rural poverty
Ethiopia	Moderate	Rural inequality fell while urban inequality rose	Slow growth in industries and negative growth in agriculture (data implausible)	Unchanged overall - rising urban poverty and falling rural poverty

Source : Demeke, Guta and Ferede (2003), Rahman and Islam (2003), and Jemio and Choque (2003)

⁷ The data presented in this section are from Demeke, Guta and Ferede (2003), Islam Rahman (2003), and Jemio and Choque (2003).

The cases for Bolivia and Ethiopia are plagued with too many gaps and inconsistencies in data to permit a reasonably confident analysis. In Bolivia slow growth occurred until 1998. The case study on Bolivia reports stable urban Gini and a reduction in urban poverty until 1999 when poverty rose as per capita income growth became negative and urban inequality rose. Employment growth, rapid until 1997, became slow thereafter. This, together with the decline in growth, help explain the outcome in urban poverty. For rural areas the case study claims a massive fall in inequality of income distribution in 1999, for which no explanation is provided and none can apparently be found, and which had no effect on poverty, which, according to the case study, increased steadily after 1997.

For Ethiopia poverty estimates are available only for 1995-96 and 1999-2000. Growth in per capita GDP was so slow that per capita personal expenditure fell by 4 per cent in rural areas and rose by a mere 3 per cent in urban areas. Poverty outcome was determined by change in inequality which fell slightly in rural areas and increased substantially in urban areas: rural poverty fell a little and urban poverty increased. It is hard to relate the fall in rural poverty to the outcome in employment, which was highly negative for agriculture. Employment intensity of industries was low as well.

With this more general dynamic perspective, it may be useful to have a more in-depth country-specific picture for the three countries to have a better assessment of individual performance with regard to growth, distribution and poverty reduction and how employment has entered in the equation as a positive instrument.

3.2 Growth, distribution employment and poverty in three countries – An in-depth country-specific assessment

The **Bangladesh** economy achieved steady if unspectacular growth during the 1980s and the 1990s. Growth in per capita income was substantially higher during the 1990s than during the 1980s, due both to an acceleration of the rate of GDP growth and a deceleration of population growth. The distribution of income became more unequal during the 1990s. Growth in income however outweighed the effect of increased inequality and brought about significant reduction in poverty. The pace of poverty reduction was faster during the 1990s than during the 1980s with the incidence of poverty falling from 52 per cent in the mid-1980s to about 50 per cent in the early 1990s to 40 per cent in 2000. Non-income indicators of poverty also fell. The human poverty index (HPI), which represents a composite index for measuring multidimensional poverty, declined from 61 per cent from the early 1980s to 40 per cent to the late 1990s. The number of students at the secondary level has increased by 29 per cent during the late 1990s.⁸

The pursuit of an export-led growth strategy resulted in the very rapid expansion of a rather narrow set of exports – garments and fisheries – together accounting for a relatively small proportion of the total increment in output. Between two-thirds and three-quarters of the incremental output was due to the expansion of non-tradable sectors, mainly services, construction and small-scale industry, a phenomenon that is confirmed by the increased share of employment in these activities. Most of these activities can be classified as belonging to rural non-farm sector.

⁸ Rahman and Islam (2003).

The principal thesis of the Bangladesh case studies is that the increased contribution of these non-tradable good in the rural non-farm sector – stimulated not by autonomous productivity gain within the sectors but by the robust demand stimulus from outside these sectors – was the principal factor behind the poverty reduction performance during the 1990s. The demand stimulus came from three main sources: the large increase in crop production that occurred in the late 1980s; income growth from the rapid growth of readymade garments industry; and the large inflow of remittances sent by emigrant workers.

Not only was inequality increasing faster during the 1990s than before, but also income from the rural non-farm sector is recognized by the studies as a disequalizing source of income growth. So what was there in the evolution of this sector that helped a faster rate of poverty reduction? According to the studies, a sizable proportion of rural labour force shifted from farming to rural non-farming sector in the last two decades. During the 1990s there was a structural change in the rural non-farming sector that was especially favourable for poverty reduction. During the 1980s the rapidly increased labour absorption by the rural non-farm sector seems to have taken place in low-productivity activities to which the rural landless, pushed out of agriculture, were drawn as self-employed workers. In contrast, during the 1990s a less rapid shift of labour force into rural non-farm sector was pulled in by the growth of wage employment in larger and more productive rural non-farm activities. The rural poor, therefore, found an improved opportunity of more remunerative wage employment in rural non-farm sector in the 1990s as compared to moving into overcrowded, low-productivity rural non-farm activities in the previous decade. This may be a bold plausible hypothesis, but the evidence in favour of it is rather fragile in the case studies.

Bolivia sustained severe loss in per capita income until 1986, as part of the Latin American crisis of that decade which was exacerbated by bad climatic conditions and natural disaster. During 1991-98, annual per capita income growth was about 1.7 per cent. Since 1999 the GDP growth rate declined sharply once again, due to international financial crisis, leading to a fall in per capita income.⁹

Overall poverty in Bolivia fell from 65 per cent to 56 per cent between but 1991-98 and 1999, but then rose again to 64 per cent. What is striking in Bolivia's case is that in spite of being a middle-income country with a per capita income of more than \$900, its incidence of income poverty is more than 60 per cent and human deprivations in non-income dimensions of poverty is also very high. The observed high levels of poverty coexisting with the per capita of a lower middle-income country could be understood in terms of a number of factors, e.g. high degrees of income inequality, a larger percentage of the work force (about 45 per cent) is still engaged in agriculture, and a rather slow transformation of the economic structure.

The incidence of urban poverty fell between 1996 and 1999 and increased thereafter. Inequality in the distribution of income in urban Bolivia showed no increase between 1996 and 1999, but rose significantly thereafter. It is possible to make sense of the change in urban poverty in the light of the change in income and inequality: Until

⁹ The data presented in this section on Bolivia are from Jemio and Choque (2003).

1999 income increased modestly with non-increasing inequality, leading to a modest reduction in poverty. After 1999 income fell and the distribution worsened, leading to a rise in poverty.

The incidence of rural poverty fell substantially between 1996 and 1997 but started rising in 1999 onwards. But it is impossible to explain the change in rural poverty which fell briefly between 1996 and 1997 and increased steadily thereafter. Agriculture continued to grow at more than 3 per cent until 1998 and a somewhat slower rate thereafter. The Gini ratio of rural per capita income dramatically dropped from 0.68 in 1997 to 0.44 in 1999 and remained steady around that low level thereafter. There is nothing in the study to help understand the momentous decline in rural inequality and its failure to have even a momentary effect to reduce rural poverty. It does not seem that the phenomenon can be explained by a possible change in agriculture's terms of trade which remained stable according to the study.

Growth in employment during 1992-97 was high. That helps explain the favourable poverty performance until 1997. After 1997 employment growth slowed dramatically to well below 1 per cent per year. The analysis of the employment scene in the study presents its own puzzles. There was a dramatic fall in the proportion of rural population due to migration to urban areas over the period from 1985 to 2001. Despite this the proportion of labour force in agriculture increased over the period: by 2001 rural population accounted for less than 35 per cent of the total while agriculture accounted for more than 44 per cent of the labour force. The share of manufacturing in total employment showed modest increase until the late 1990s but fell in 2001 to a level lower than in the early 1990s. The only major shift in the composition of employment during the 1990s consists of a sharp increase in the share of "commerce and restaurants" and a substantial fall in the share of "community and personal service". The study interprets the increase in the share of commerce and restaurants as a kind of survival strategy on the part of the poor who moved into "low-paid, small-scale commerce and related service activities, as a means of increasing income opportunities of poor households". It is possible to interpret the increased share of agriculture in the labour force in the same way, during a period when industries and non-agricultural activities failed to absorb labour. It is not altogether clear how this can be reconciled with the story about migration.

To conclude: moderate growth in per capita income combined with non-increasing inequality probably led to some reduction in poverty between the early 1990s and sometime around 1997 or 1998. Good growth in employment in some sectors (not in those with high employment intensity) and a fall in the open unemployment rate helped this process. Thereafter poverty increased due to a decline in the growth of per capita income and a rise in urban inequality, the claimed dramatic fall in rural inequality posing a huge question mark. Slow growth in employment and a rise in the open unemployment rate contributed to this process.

Ethiopia stagnated during the 1980s, the decade preceding the emergence of the new regime, with an annual average GDP growth of just 2.3 per cent, below the rate of population growth, estimated to have been above 2.5 per cent. During the 1990s, following extensive economic reform - involving standard stabilization policies; trade, exchange rate and financial liberalization; widespread deregulation; and some amount of privatization - growth became faster at an annual average rate of 4.6 per cent. In

per capita terms, this translated to just over 2 per cent annually. That this rate of growth was inadequate for poverty reduction is evident from the fact that between 1995-96 and 1999-2000, the only period over which poverty estimates are reported in the case studies, per capita real consumption in rural Ethiopia actually fell by 4 per cent and per capita real urban consumption increased by just 3 per cent.¹⁰

During 1994-99, roughly coinciding with the period over which poverty estimates are available, employment growth for the economy as a whole was dismal, -0.6 per cent per year. The largest sector of employment, agriculture and allied activities, recorded an about -3 per cent annual change in employment. For a number of reasons these employment data seem implausible. Poverty data show that for the farming population the incidence of poverty declined between 1995-96 and 1999-2000. It is hard to imagine this happening with a large decline in employment. It is also difficult to imagine where all the laid-off “workers” in agriculture went. The “allied activities” seem to indicate much of the informal rural employment categories. It is possible that the sources of employment data at the two points were not comparable.

The poverty outcome in Ethiopia was actually determined by the change in the distribution of income and consumption: rural Gini ratios fell a little and the incidence of rural poverty, by all the standard measures, fell a little. Urban Gini ratios increased, substantially for consumption expenditure, and urban poverty increased according to both headcount and income gap indices. At the national level there was no appreciable change in the incidence of poverty. The study calls the official estimate of the slight decline in rural poverty “a statistical myth” since “the growth rate of real agricultural per capita output has been negative and real per capita rural income has declined”.¹¹

The study reports some non-income indicators of welfare. In education, enrolment has generally increased although the crowding of physical facilities and the rise in student/teacher ratios, indicate the possibility of deterioration in quality. Short-term child malnutrition has increased in rural areas although long-term child malnutrition has declined.

3.3 Were the growths pro-poor?

From the experiences of the three countries – Bangladesh, Bolivia and Ethiopia – in areas of economic growth, employment and poverty, one basic issue that merits further analysis is the nature of their growth.

The experiences of **Bangladesh** with regard to growth and poverty reduction indicate despite higher economic growth rates, the rate of poverty reduction in the slowed down, compared to the first half of the decade. And several employment-related observations may be relevant in that context :

- *First*, the sectoral composition of employment in the country is not changing in a direction that could support a high rate of poverty reduction. In fact, the share of the manufacturing in total employment has been declining

¹⁰ Data presented in this section on Ethiopia are from Demeke, Guta and Ferede (2003).

¹¹ The figures that the study quotes to show this decline actually refer to expenditure, not income.

continuously since 1989 and although the trend got reversed, the level in 2000 at 10 per cent remained well below that of 16 per cent in 1989

- *Second*, employment elasticity for the manufacturing sector as a whole declined during the 1990s compared to the 1980s (0.69 for 1990-98 compared to 0.75 for the 1980s)
- *Third*, higher output growth in agriculture during 1996-2000 (more than 5 per cent per annum compared to 1.5 per cent during 1991-96) has not been translated into higher rate of poverty reduction in rural areas. The decline in poverty was poverty during the first period was 0.83 percentage points compared to 1.13 percentage points during the second period
- *Fourth*, the rate of real wage increase has been slower in agriculture compared to other sectors. More importantly, there has been decline in real wages in agriculture after 1996-97 and that implies that agricultural workers, who form the bulk of the rural poor, have not benefited to the extent that they could have from growth in agriculture during the second half of the 1990s
- *Fifth*, inequality in income distribution has increased between 1991-92 and 2000 – at the national level as well as for rural and urban areas separately.

On the whole, the trends in employment and labour market developments, as mentioned above, are consistent with a slower rate of poverty reduction during the second half of the 1990s, although the economic growth rate was slightly higher. And one can then suspect that growth in Bangladesh may become less pro-poor in the second half of the last decade.

In the **Bolivian** case, to start with, the overall economic growth rate was moderate during the 1990s. But poor people did not get a good share of even this growth rate for a number of reasons:

- *First*, the sectors with high employment intensity (e.g. agriculture, commerce) achieved very low rates of growth. As poverty is much higher in rural areas, a low growth rate in agriculture did not make any contribution to reduction in rural poverty.
- *Second*, the sectors which achieved high rates of economic growth (e.g. electricity, gas and water, transport and communications, financial services) have low employment intensity.
- *Third*, although the gap between the average real earnings in rural and urban areas narrowed a little during the 1990s, the gap widened later and in 2001, it was higher than that in 1996
- *Fourth*, the sectoral composition of employment does not show any structural shifts towards sectors with higher productivity. The share of agriculture is more than 40 per cent and the share of manufacturing registered a small increase during 1992-99, only to decline in 2001. Indeed, the recent increase in agricultural employment was at the cost of declining productivity. Thus,

agriculture appears to have acted as the sponge to absorb labour for whom the alternative would have been unemployment

- *Fifth*, the annual increase in real wages in manufacturing far outstripped the rise in labour productivity during 1991-98. Thus the manufacturing sector lost its competitiveness and when economic growth slowed down sharply during 1999-2000, the labour market adjusted through cutting employment.

It thus appears that even though during 1991-99, modest economic growth in Bolivia was associated with some poverty reduction, the real pattern of growth was not pro-poor. With the continuation of high degree of inequality, widening rural-urban income gap, higher output growth concentrated in non-labour intensive sectors, very little change in sectoral composition of output, neither the growth rate nor poverty reduction could be sustained. Moreover, real wage increases in manufacturing were de-linked from productivity and rise agricultural employment was at the cost of labour productivity. The basic ingredients of pro-poor growth were missing.

Ethiopia's experiences in the 1990s highlight the case where moderate economic growth has failed to produce any significant reduction of poverty for a number of reasons :

- *First*, the output growth during the 1990s was achieved through higher productivity as there has been a decline of employment by 0.6 per cent per annum. In manufacturing, employment increased only by 2 per cent during 1992-99, while output increased by 5 per cent per annum – indicating a low employment intensity of growth in that sector.
- *Second*, employment in agriculture appears to have declined during the second half of the 1990s, although output increased. So, labour productivity should have risen. But even this observation is questionable as time series data on employment and estimates of labour productivity in this sector are based on projections only.
- *Third*, although real wages have risen in manufacturing, given the small size of the sector relative to the total economy and the low rate of employment growth, this sector does not appear to have contributed much to poverty reduction.

4. Potential for employment-intensive and pro-poor growth

Employment intensity of economic growth is the principal link in the growth-poverty nexus. It basically is the ratio of the growth rate of employment to the growth rate of output or value added. Empirical estimation of output elasticity of employment suffers from numerous problems. In agriculture and traditional services employment estimates are often very unreliable and over time the intensity of employment varies both due to actual changes and due to differences in survey methods over time. That is why one encounters estimated elasticity for agriculture of well over 2 and for services of over 1 in certain cases. Estimates of employment in modern manufacturing and services should be relatively free from these problems. And yet there can be serious problems when industries are not organized on market principles. Thus excess

employment is a widely observed phenomenon in state enterprises. Even in private enterprises fostered under protection, facing little pressure of competition to limit employment to what efficiency would dictate, employment in manufacturing can be excessive. During the process of market reform these phenomena go through transition and can easily give wild estimates of elasticity.

None of the case studies – Bangladesh, Bolivia and Ethiopia - found the rate of employment growth satisfactory during the periods on which they primarily focus. **Table 3** tries to provide a qualitative evaluation of the factors behind the inadequate growth in employment for the case studies.

**Table 3: Employment intensity of growth and cause of slow growth:
Bangladesh, Bolivia and Ethiopia**

Country	Degree of Employment intensity of growth	Cause of slow employment growth
Bangladesh	Declined in manufacturing as a whole with considerable degrees of variations among sub-sectors; fairly good in informal activities	Less than robust economic growth and questionable incentives
Bolivia	Good; high output elasticity of employment	Slow economic growth
Ethiopia	Poor; low output elasticity of employment in industry; negative in agriculture	Slow economic growth and bad incentives

Source : Khan (2005)

In the context of table 3, one fundamental question with regard to the three countries studied is: what the potentials are in these three countries for employment-intensive and pro-poor growth, with a particular focus on agriculture, rural non-farm activities, manufacturing and infrastructure.

4.1 Potentials for enhancing employment-intensity in agriculture, non-farm sector, manufacturing and physical infrastructure

In **Bangladesh**, in terms of trends in employment generation, three issues may be pertinent. *First*, in the 1980s, agriculture used to account for about 70 per cent of the employed workforce. In 2000, it still accounted for more than 60 per cent of the country's employed workforce. During the same period, the share of manufacturing has also decreased from 20 per cent to 10 per cent. The declines in these shares have been absorbed by the service sector, which now accounts for about 25 per cent of the employed workforce – almost a three-fold jump from 9 per cent in 1981. *Second*, the

changes in sectoral composition of employment have not been smooth – in all three sectors there have been some fluctuations over the last two decades. For example, the share of services in total employment has increased from 9 per cent in 1981 to 28 per cent in 1985, but then it fell to 15 per cent in 1989 and then revived to 25 per cent in 2000. *Third*, in terms of growth rates, employment in the rural economy grew at an annual rate of more than 4 per cent during 1995-2000, while in manufacturing it was only 1.3 per cent. In finance and business services, the annual growth rate has been 22 per cent, but one has to remember that the initial base was also small.¹²

It is thus evident that in Bangladesh, the role of the rural economy and agriculture in employment generation can hardly be over-emphasized. It is thus no wonder that the Bangladesh case study focuses on the rural non-farm activities for creating the dynamism for employment-intensive and pro-poor growth. It argues that rural non-farm self-employment can be an important mechanism for improvement of income of those closer to the poverty threshold. Such activities, the study argues, may provide subsidiary sources of employment for the family members who would otherwise remain outside of the labour force. As a result of the use of mainly family labour and close supervision of hired labour, not only the labour cost is low, but the efficiency of the resource invested is also high with high rates of return. Thus the successful non-farm activities can contribute to the growth of income of the self-employed and may help the enterprising group among poor people above the poverty threshold. The case study reports that in Bangladesh, the benefits for self-employment in rural non-farm sector were derived mainly by the marginal poor and non-poor. The rationale for rural non-farm self employment for poverty reduction has been vindicated through focused group discussions. Those who are employed in this fashion have demonstrated ingenuity in the choice of combination of activities to maximize family income.

But the study also highlights the limitations of the strategy of self-employment in the rural non-farm sector for employment-intensive pro-poor growth and for poverty reduction. *First*, the absence of required human skill and lack of access of poorer households to physical capital and productive resources make it difficult for them for generating good productive employment. The differentiation of rural non-farm activities into dynamic and high productivity sectors versus lagging and marginal activities are well-known. Poorer households usually engage in the marginal and less dynamic ones. *Second*, if one considers return to capital as an indicator of efficiency, then many miniscule activities in the rural non-farm sector would top the list. But given the very small size of capital, income per month from such activity may not be above the poverty cut-off level. *Third*, most self-employment activities at the lower end generate employment for only family members and cannot generate demand for hired labour. Therefore, rural non-farm self-employment cannot be a substitute for hired labour based on growth of secondary and tertiary sectors, which may help generate employment for the poorest that cannot set up their own enterprises.

In **Bolivia**, during the last decade, the sectors (e.g. agriculture), where the bulk of employment is concentrated, presented the lowest growth rates of GDP, labour productivity and real incomes. Besides, these sectors were affected by the highest levels of poverty incidence. Agricultural workers, that comprise 39.3 per cent of total

¹² For data in this section on Bangladesh, please see Rahman (2004) and Rahman and Islam (2003).

employment at the national level, presented 81.7 per cent of poverty incidence in terms of income levels.¹³

In the rural labour market, the agricultural sector exhibited some positive growth in the last decade, but it did not benefit the poorest segments of workers engaged in these activities. *First*, agricultural growth was basically explained by the good performance of agro-business activities, which produced mainly to satisfy export markets. *Second*, the analysis of land allocation to various crops showed that there was an increase in the shares of land under commercial crops, which did not require labour input in large amounts. *Third*, agricultural price movements did not favour non-commercial crop producers either, as prices of these crops experienced significant reductions in real terms.

In terms of potentials for employment-intensive and pro-poor growth, the data indicate that the largest employment effect come from exports of non-industrial agricultural products, due to large share of workers employed in that activity. An increase in exports of non industrial products of about \$1 million creates 1400 new jobs, both in the agriculture sector and in the rest of the economy, through the multiplier effect. Exports of livestock can also be important in promoting job creation. In the manufacturing activities, the most important sector in terms of job creation is the processed-food industry. Other sectors with interesting potential of creating jobs are the production of processed wood and wood products; and the manufacturing of textiles. Although it is considered a non tradable activity, the service sector represents another important alternative to promote employment creation. Tourism development could be a very interesting alternative with important effect in creating jobs that would benefit the poor.

Urban informal sector accounts for about 60 per cent to 65 per cent of urban employment in Bolivia and thus is largely linked to material survival of households. Manufacturing also has an important share in total urban employment. There is also a predominance of unpaid labour in employment of micro and small enterprises in the informal sector. The bulk of informal labourers have jobs as self-employed, family workers and owners, partners and non-paid employers. The largest share of workers suffering poverty is employed in micro and small enterprises. Their main source of income is the profit earned in the firm, including the imputed incomes of own-account worker and of family labourers. Low income levels are linked to reduced labour productivity, due to the inadequate educational levels attained by workers. Labour productivity in micro and small-scale firms, in the urban informal sector, is also constrained by reduced investment levels, which in turn result in small endowments of productive capital per worker, e.g. machinery and equipment, also constrain labour productivity in micro and small enterprises. Given the importance of urban informal sector in the employment spectrum of Bolivia, an employment-intensive pro-poor growth must build on the potentials of this sector. Such potentials can be maximized through productivity-enhancing measures, putting in a proper legal framework for this sector, improving the access of this sector to productive resources and physical capital and integrating this sector to export-oriented activities.

¹³ The data in this section on Bolivia are from Jemio and Choque (2005 and 2003).

The Bolivian study also indicates that physical infrastructure can also contribute significantly to employment generation. Simulations exercises carried out using a multi-sectoral Computable General Equilibrium (CGE) model shows that an increase in government expenditure in productive infrastructure growth can be sustained in the long-run due to additional productive capacity created. But this is not the case if there is an increase in government expenditure in non-productive areas. Both outcomes have been found to have a quite different effect in terms of employment creation. The short-run effect on employment in both simulation exercises, are similar, as increased demand tends to generate an increased economic activity. In the long-term, however, the reduced rate of unemployment resulting from expenditure expansion can only be sustained in the case of physical infrastructure, because of the higher growth attained in the long-run scenario.

In **Ethiopia**, growth decomposition reveals that area expansion, infrastructural capital, application of chemical fertilizer and rainfall have been the main sources of agricultural output growth and as such rural labour force was not positively associated with agricultural production. This is consistent with the observation that agricultural value added per worker, and wage rate have declined over time. The small and marginal farmers have not benefited from agriculture as relative prices have gone against food crops. In terms of labour-intensity, livestock activity is found to be more labour-intensive than crop production but the sector has the lowest return owing to a number of structural problems such as lack of animal feed, disease, low genetic potential, etc.

Shrinking farm size and declining soil fertility in agriculture underscores the importance of non-farm employment in Ethiopia. It has been argued that transformation and consolidation in the agricultural sector cannot be successful without a non-farm sector that provides gainful fulltime and part-time employment opportunity for the growing rural population. Diversifying income sources into off-farm activities is thus necessary not only to create employment for new entrants into the labour force and supplement the income of landless and near landless families, but also to provide downstream and upstream services to agriculture. Nonetheless, these opportunities are limited in the country. With little or no presence of input dealers (fertilizer, improved seeds, chemicals), equipment suppliers and renters, service providers (e.g. veterinary, extension), processors, packers and cold transporters in rural areas, it has become impossible to create a productive non-farm employment with strong backward and forward linkages between agriculture and the non-agricultural sector. The constraints facing off-farm employment include inadequate institutional support, weak demand (due to and lack of urbanization and widespread poverty), inadequate policy environment, inadequate human assets, lack of associations or unions, absence of business development service, poor financial services, inadequate physical and social infrastructure and lack of effective participation.

The manufacturing sector is generally characterized by weak production, consumption and income linkages with the domestic economy. The sector is highly dependent on imported sources for its raw material requirements. Weak inter-sectoral (with other sectors such as agriculture) and intra-sectoral (within the manufacturing sector) implies that the sector has not been the source of dynamism for the economy at large. Within the manufacturing sector, agro-processing industries such as food and

beverages, textiles, leather and leather products have relatively strong linkages with agriculture, even though the sub-sector is not expanding. Stiff competition from imports has adversely affected the textile sub-sector. Imported cooking oil and wheat flour (these are also donated in the form of food aid) have also created difficulties for local enterprises. Yet there are manufacturing activities that are relatively employment-intensive and have strong linkages with the rest of the economy (e.g. textiles, food and beverages, tanning and dressing of leather, other non-metallic mineral products, paper products and printing, and wearing apparel) that serve as a source of job creation. Currently, these activities operate below capacity (only half of their capacity) owing to a number of supply and demand side problems.

Although small-and medium-scale industries account for a sizable proportion of the industrial GDP and employment for the growing labour force, labour productivity has been low and stagnant. The poor are concentrated in grain mills, food and beverages, and manufacture of metal products where the majority of workers earn incomes that are less than the national poverty line. A significant proportion of the poor also work in the urban informal sector, which is characterized by low productivity and very low return. Given the role that these industries play in employment generation and poverty reduction, creative solution can be found to take advantage of the potentials of these in employment generation.

In Ethiopia, public works are implemented in the form of food-for-work (FFW), cash-for-work (CFW) programs or employment generation schemes (EGS). Two types of infrastructure programs can be distinguished in Ethiopia, namely, those that provide safety nets and those based on labour-based approaches. The EGS have been designed and implemented not to alleviate poverty per se but as a short-term policy response to emergency situations. With no adequate planning and community participation in the programs, terraces, feeder roads, tree planting, etc. built through EGS have not helped change the lives of drought- prone areas.

The major conclusions from the preceding discussion and analysis on potentials for enhancing employment intensity in the concerned countries are summarized in **table 4**.

The potentials for employment-intensive pro-poor growth, as outlined above, cannot be reaped unless poor people are integrated into the growth process – the integrability factor. Poor people can integrate into the growth process only if they enhance their capabilities through access to education, through skill formation and they have access to productive resources including inputs and, finance and credit and other income-generating assets.

**Table 4: Potentials for enhancing employment intensity:
Bangladesh, Bolivia and Ethiopia**

Country	Past trends	Potential opportunities	Perceived constraints
Bangladesh	▪ Agriculture accounted for more than 60% of country's work force ▪ Employment shares of agriculture and industry declined, absorbed by the service sector	▪ Rural economy and agriculture is still important ▪ Non-farm activities, particularly non-farm self-employment	▪ Absence of required human skill and lack of access to capital ▪ Non-efficiency of many non-farm activities
Bolivia	▪ Some positive growths in agriculture, but without benefiting the poorest in terms of generating employment for them	▪ Exports of non-industrial agricultural products ▪ Expansion of service activities, particularly urban informal sector ▪ Physical infrastructure	▪ Low productivity in the urban informal sector and its illegal status ▪ Positive biased public expenditure on non-productive sectors
Ethiopia	▪ Agricultural growth through area expansion, infrastructure capital and improved inputs without employment expansion	▪ Non-farm employment ▪ Manufacturing activities (e.g. textiles, food and beverages) with strong linkages with the rest of the economy	▪ Inadequate institutional support, policy environment and weak human resources in off-farm activities ▪ Stagnant and low labour productivity in manufacturing

Source: Islam Rahman (2004), Jemio and Choque (2005) and Demike, Guta and Ferere (2006).

4.2 Ability of poor people to integrate into the growth process

In **Bangladesh**, almost half (47 per cent) of the workforce are without education. About 13 per cent have secondary or higher than secondary education. It is observed that a much higher percentage of female labour force than the male labour force is without education – 59 per cent of the female and 42 per cent of the male labour force fall into this category. Within the educated labour force (secondary and above), about 18 per cent are women. In terms of skilled workers, in rural areas, 9 per cent of the female labour is skilled and 37 per cent of male labour is skilled. In urban areas, the respective figures are 12 per cent and 35 per cent. In terms of sectoral distribution, the major concentration of educated workers is in the service sector and in electricity and, gas and water sector. Of the total workers in finance, business and services, nearly 31 per cent have secondary or more than secondary education and nearly 38 per cent have university education.¹⁴

Unemployment among the educated labour force is quite high in Bangladesh. Among the people with secondary and more than secondary education, 27 per cent are unemployed while among people with no education, the corresponding figure is 10 per cent. Among the poor people, the unemployment rate of people with secondary and more than secondary education is 27 per cent in urban areas. The comparable figure for non-poor people is 19 per cent. In rural areas of Bangladesh, the unemployment rate among people with secondary and more than secondary level education is 30 per cent in non-poor stratum, while for non-poor ones, it is 31 per cent.

In terms of capital in self-employed ventures, there are significant differences between the poor and non-poor farms. For example, in the area of poultry farms, while for poor people, the fixed capital is Taka 3,000 (about \$50), for non-poor farms, it is Taka 60,000 (about \$1,000). Similar is the situation with working capital. The source of funds for non-poor farms are institutional, but that for poor farms is own capital. Similar trends are observed in rice mills, paddy processing and other activities.

In **Bolivia**, 41 per cent of the workforce has primary education, while 33 per cent has secondary education. Poverty incidence is much higher among workers with the lowest educational levels. Labourers without any educational achievement tend to be the poorest among urban workers. They are affected by the highest degree of poverty incidence (49.8 per cent). Workers with tertiary education are less affected by poverty (only 24.7 per cent of poverty incidence).¹⁵

The single most important variable in explaining income differentials among urban workers is the educational degree attained. Education is closely linked to labour productivity and therefore to worker's earnings. At the national level, an additional year of schooling contributes to increase workers' incomes by 8.9 per cent. Educational attainment is more significant in increasing incomes for rural workers than for their urban counterparts. An additional year of schooling is expected to

¹⁴ The data in this section on Bangladesh are from Rahman (2004).

¹⁵ The data in this section on Bolivia are from Jemio and Choque (2005 and 2003).

increase rural workers' incomes by 10.4 per cent and urban ones' by 8.4 per cent. Finally, language spoken is also paramount in explaining income differentials. At the national level, indigenous workers tend to earn incomes 26 per cent lower than non-indigenous counterparts. Income disparities are much larger in rural areas, between indigenous and non-indigenous workers, compared to those existing among urban workers.

On average, micro and small firms' endowment of productive assets is only about \$596. Thus the endowment of productive-asset per worker is also very low. Productive asset endowments, per firm and per worker, are highest in the manufacturing sector, being about 2.5 times the average for total micro- and small-scale firms. On average, micro and small firms own around 0.5 machines. Thus the amount of machinery per worker is even smaller. Only half of the machines in these firms use electricity and about 32 per cent are operated manually. The rest of them utilize other sources of energy.

Of the total illiterate household heads in rural **Ethiopia**, about 87 per cent belong to poor households and only 13 per cent to non-poor households. The corresponding figures for urban areas are 75 per cent and 25 per cent respectively. The proportion of poor in rural areas declines rapidly with the increase in educational attainment of household heads.¹⁶

Human capital is extremely low in Ethiopia due to adverse synergies between poor education, health and nutrition status. One of the major problems of the education system in the 1980s was that it did not help students improve their cognitive skills and motivate them for success. This is due to the fact that education was theory-oriented without due emphasis to vocational and technical trainings. The amount of resources allocated to books and other materials was very small. The number of students per teacher and class increased significantly. The teaching profession was not attractive salary wise. Only those people who could not find employment in other fields joined the teaching profession. As a result the quality of teachers suffered a lot. In addition, the curricula at various levels were not relevant to the objective realities of Ethiopia. Since 1994, a new Education and Training Policy has been adopted taking into consideration the limitations of the previous educational system. The education policy emphasized development of the physical and mental potential and problem-solving capacity of individuals by expanding and providing basic education to all.

The Ethiopian study points to the existence of multiple labour-related risks faced by specific groups. A key finding of this analysis is the extreme vulnerability of low-educated people, who face a high risk of being unemployed, and if employed, of being low-paid or working in precarious jobs. Other groups facing a high risk of exclusion are people with disabilities, individuals living in depressed rural areas and the youth.

In Ethiopia, a large proportion of the rural poor keep farm animals. About 78 per cent of poor households owned cattle in rural areas, compared to 15 per cent in urban areas. Ownership of animals by itself does not help unless the animals are used to generate income.

¹⁶ The data in this section on Ethiopia are taken from Demeke, Guta and Ferede (2006 and 2003).

Poor households are also in a disadvantageous position to basic infrastructures. Only about 14.7 per cent of the rural poor live within one kilometre from the nearest food market, compared to 69 per cent in urban areas. The majority of the rural poor (56 per cent) have to travel some over six kilometres to reach the nearest food market. Lack of access to road is bound to reinforce subsistence production in rural areas. About 43 per cent of the rural poor live more than two kilometres away from primary schools and the situation is worse with regard to secondary schools where more than half of the rural poor live more than 16 kilometres away from it. In other words, close to 60 per cent of the rural poor had to travel a minimum of 16 kilometres to access secondary school in 1999. With regard to health facilities, close to 30 per cent of the rural poor are 6-9 kilometres away from the nearest health services. The situation is much better in urban areas: about 81 per cent and 48 per cent of the urban poor have to travel less than one kilometre to reach the nearest primary school and secondary school, respectively. A similar trend has been observed with respect to access to roads. About 29 per cent of the rural poor live more than 16 kilometres away from all weather roads and 19 per cent from dry weather roads. The rural poor do not have access to basic economic and social infrastructure and this tends to exacerbate their poverty situation.

Ethiopia, like many other Sub-Sahara African countries, is faced with the critical development challenges HIV/AIDS epidemic. HIV/AIDS epidemic has deepened the extent of poverty by selectively removing the economically active labor force. For instance, the Ministry of Health estimates that at present more than 3 million people are infected with HIV/AIDS and more than 90 per cent of these are in the age group of 15-49 years.

The available evidence shows that the epidemic is increasingly extending to poverty stricken rural areas of Ethiopia. The direct costs of the disease often exceed a poor household's annual income in rural Ethiopia. For instance, the average treatment costs and funeral expenses have been estimated to be birr 2,494, compared to the net farm income which varied between birr 270 and 620. A death of an adult male usually leads to an increase in female-headed households and consequently, a decline in farm income. HIV/AIDS has increased illness and mortality rates, lowering productivity and raising health care costs and continue to be a major constraint on sustained growth.

5. Strategies for achieving the potential pro-poor growth

Given the potentials for employment-intensive pro-poor growth and the constraints identified in the preceding section, the three case studies – Bangladesh, Bolivia and Ethiopia – indicate that there are three distinct ways in which policies and strategies can contribute to pro-poor growth and poverty reduction:

- They can promote higher growth which, with favourable output elasticity of employment, increases employment and/or earnings of poor people. Such pro-poor growth alleviates poverty.
- They can change incentives in favour of more labour-intensive activities and techniques, thereby increasing employment and/or earnings of poor people. This also alleviates poverty.

- They can directly enhance the capabilities of poor people through better access to basic social services – health, education, safe water, basic sanitation through reallocation of public expenditure. This will ensure the integration of poor people in the growth process as participants and as beneficiaries. They can also improve the welfare of poor people through social safety nets and income transfer to the poor. Faster growth facilitates this process but is neither necessary nor sufficient for this to happen.

In analysing the role of employment in the linkage between growth and poverty reduction – the subject of the three case studies – the focus has been primarily on a faster rate of increase in labour demand which translates into a higher rate of increase in employment and/or labour remuneration. Policies are no longer limited to macroeconomic instruments, but also include micro-economic instruments and institutional reforms.

5.1 Enhancing pro-poor growth through macroeconomic policies

Pro-poor growth would imply higher rate of output growth with the growth of the labour intensive sectors of the economy, but with the enhancement of labour productivity. That, in turn, would require suitable macro policies and the creation of conducive environments for acceleration of the rate of investment. In addition, given the resource constraints, the efficiency of resource use must be increased. In addition to the conventional macro policies for acceleration of investment, resource use efficiency can increase through improved governance. The policies to be implemented range from maintaining macroeconomic stability, to strengthening property rights, the rule of law and institutions.

The three case studies indicate that a pro-poor growth macroeconomic policy framework would comprise of a set of critical elements : macroeconomic stability, more allocations of resources to ensure access of poor people to basic social services – health, education, safe water and basic sanitation; improved access to productive resources including credit and other productive inputs; and redistributive policies.

- *Macroeconomic stability:* The macroeconomic stability requires setting of targets for critical macroeconomic indicators such as inflation rate, budget deficit and balance of payments deficit. But the issue of stability should not be pursued mechanically and ruthlessly at the cost of hurting growth and poverty alleviation measures. Budgets should not be balanced at the cost of unbalancing people's lives.

Macroeconomic stability is a necessary condition for pro-poor growth, not the sufficient condition. For example, Bolivia has maintained macroeconomic stability over the last two decades. However, this condition is essential, but not sufficient to generate the levels of investment necessary to increase productivity - and therefore economic growth, job creation, and poverty reduction.

- *Pro-poor policies:* In order to ensure enhanced access of poor people to basic social services and productive resources, macroeconomic policies – fiscal

policies, monetary policies, and trade policies - must be geared towards poor people. For example, the tax policies should be formulated in such a way so that they provide more incentives to poor people and ensure lesser burden on them. Similarly, in monetary policies, interest rate framework can be designed in such ways that would favour poor people and effective demand can be created for poor people through proper monetary policies. Policies can be formulated so that financial capital is provided more to poor people. On financial policies, in Bangladesh, the great failure in monetary areas, for example, consists of the continued incidence of high loan default by the large borrowers which results in the very high spread between the banks' borrowing and lending rates. This has been particularly disadvantageous for the small producers and poor borrowers.

Through enhancing capabilities of poor people, increasing productive assets of them, their levels of employment, their productivity can be enhanced so that they benefit more from the growth process. It is equally important to point out that even with all kinds of pro-poor growths; there are people who do not participate in the growth process. Redistributive policies in terms of cash transfers can help poor people. Furthermore, various social safety nets are also required.

- *Policies during crisis:* Macroeconomic policies are also needed to protect poor people during economic vulnerabilities and risks created by growth process, globalization and other external and internal shocks – financial, natural and otherwise. During such crises, public expenditures for health and education must be protected, public investments must be used to create emergency employment opportunities for poor people and social safety nets must be extended.
- *The privatization issue:* Privatization of state-owned-enterprises has been another major component of macroeconomic reform. Its pace needs to be properly sequenced, their sales have to be based on economic criteria and resources from their sales should be accurately accounted for and invested. Information on the social impact of privatization is to be there. The Bangladesh study argues that the process, by reducing the waste of public resources into loss-making state-owned-enterprises, could have helped the welfare of the poor by improving the ability of the government to divert resources to social sectors.
- *Reform of the external sector:* Reform of the external sector can have a significant impact on pro-poor growth and poverty reduction. In Bangladesh, for example, some of the reforms – e.g. those liberalizing the import of irrigation equipment that spurred agricultural growth in the 1980s and the privatization of rice imports – have helped growth and poverty reduction. Other measures – e.g. import liberalization that stifled the growth of domestic engineering and capital goods, and the discriminatory tariff on machine tools (such as sewing machines) used by small enterprises – appear to have harmed growth and poverty reduction (e.g. Ethiopia).

Sometimes concerns are expressed with regard to the rise in the real exchange rate of the currency relative to the currencies of major neighbours. Often inactions are recommended because the exchange rate is by and large market determined. The Bangladesh study makes the important observation that further reform of the trade regime by way of reducing its current bias in favour of non-tradable sectors should be viewed with caution because of the poverty-alleviating effect of growth of these sectors. On the consequence of WTO reforms, the study highlights the very uncertain prospect that garment exports face in the immediate future when the Multi-Fibre Agreement is due to end.

Often, as indicated in the Bolivian study, a key constraint that limits business expansion is the reduced size of its domestic markets. Thus, attaining higher pro-poor economic growth will depend on fully expanding export potential and integrating into the global economy. Countries sometimes have the potential to diversify its exports, expanding exports of labour intensive products, with higher value added. To this end, policies should focus on developing a comprehensive strategy for opening export markets for domestic products

This strategy should also focus on diversifying export markets. As shown in the Bolivian case, its main export markets are Mercosur (natural gas mainly) and the Andean Community (soya and soya products). Other export markets have remained largely unexploited to Bolivian exporters, such as the European Union and the Asian countries. Bolivian exporters do not fully use the preferences they enjoy under trade agreements. This reflects Bolivia's limited export bundle and weak negotiation and implementation of trade agreements. It is crucial that Bolivia enter into negotiations with the United State for a Free Trade Agreement. Otherwise, the country risks losing the American market that has the potential to be its most important market for non-traditional, labour-intensive, and manufactured products.

In addition, countries should also follow policies on strengthening trade institutions and instruments, to afford strong support for exporters, such as: strengthening the export promotion office, promote the temporary import regime among exporters, simplifying the system to refund tariffs and internal taxes to exporters, strengthening basic infrastructure and institutions for standards and quality control.

- *Policies to improve the business environment:* Policies should be aimed at improving the investment climate in which firms operate. A reliable business environment is essential to promote investment, and the creation of job opportunities. There is a need to attract larger investment flows, both foreign and domestic, especially in sectors that are labour intensives. The Bolivian study has made a strong plea for that, particularly in the context of the informal sector.
- *Institutional reforms:* Apart from economic issues, as the Ethiopian study suggests, there are other areas where important improvements need to be done. These includes actions to reduce red tape; to strengthen property and creditor rights; contract enforcement, registering of property, and collateral law; to put

in place mechanisms to increase access to prudent financing for small and medium enterprises; and to improve judiciary and public services, trade logistics and supply chains.

In the ultimate analysis, employment-intensive pro-poor growth should ensure the following:

- The poorer people have more access to basic social services and productive resources
- The rate of their income growth is higher than the rate of income growth of any other group
- Poor people are protected during shocks, vulnerabilities and crisis.

5.2 Strategies for enhancing employment-intensity

In terms of strategies for higher employment-intensity, some general conclusions do come out quite clearly from the three case studies. *First*, either slower growth or less than robust growth has been identified as a major cause of slow growth in employment (e.g. Bolivia and Ethiopia). But at the same time it was recognized that growth as such does not have much impact on poverty reduction (e.g. Bangladesh). The pattern and employment content of growth, which substantially differs across sectors, has significant implication for poverty reduction since all income classes do not share the fruits of growth equally. The absence of the so-called the “trickle down” effect of growth calls for an identification growth patterns that are more efficient in terms of reducing poverty. What is required is a more pro-poor growth policies aimed at creating productive employment and at the same addressing the main constraints of the different sectors where the poor are concentrated.

Second, employment hostile incentive system also appears to be a major cause of slow employment growth in two cases (e.g. Ethiopia). Improvements in the incentive system - reduced barrier to entry, relaxation of constraints on the private sector, and the reduction of distortions caused by arbitrary customs and excise duty rates as well as the lowering of these rates can provide the right kind of incentives for employment rapid employment growth. The system can also include abandonment of the policy of arbitrary allocation of resources for investment in large capital-intensive public enterprises and a big shift in favour of private investment, often in smaller enterprises. There are also outstanding labour market irrationalities that plague many countries. The artificially high difference between industrial wages and average rural earnings is an example. The lack of mobility of labour out of declining industries, often involving astronomical cost in getting them relocated elsewhere, is another important issue. One should also acknowledge the role of institutions in employment generation.

Third, in the paths of poverty-alleviating employment growth, a number of issues have been raised. The issue of classic industrialization, transferring labour from agriculture to industries and modern services, has been related to the tardiness of the process. The slow transition out of the sector with far lower output and income per worker than industries and services is one reason for the persistence of poverty which has a far greater incidence among agricultural population than the rest of the

population. A lot of explanation for this tardiness of structural change in the composition of employment can be found in the public policies pursued (e.g. Bangladesh and Ethiopia).

The issue of the large difference between average urban wage and average rural earning effectively means that the wages of urban industrial employees included an element of “rent” which had to be buttressed by regulations limiting entry into and exit out of industrial employment (e.g. Bangladesh, Bolivia and Ethiopia). Quite apart from contributing to a rise in wage cost, this system restricts labour mobility from less productive sectors to more productive industries. It means that compared to the countries, for example the original East Asian tigers, which started industrialization without the above types of irrationalities characterizing their labour markets, the countries which have embarked on reform from typical import-substitution regimes will take much longer to bring about a structural change in the composition of employment.

The issue of an increased share of agricultural employment is most widely prevalent case. Development theory has long identified this as an indicator of retrogression. This does not constitute a long-term solution to the problem of unemployment and poverty. All three country studies refer to it. Some nevertheless argue that appropriate institutional reform can improve agriculture’s capacity to productively absorb more labour at any particular time thereby giving a short-term boost to poverty reduction.

Fourth, how attractive an alternative is the Bangladesh model of rapid increase in remunerative employment in the rural non-farm sector as hypothesized in the Bangladesh case study? The explanation seems to be tentative, albeit highly interesting, hypothesis in need of clearer evidence to establish its validity. Be that as it may, the case study itself raises a number of issues that are question marks on its viability. First, the Bangladesh case clearly establishes that income from rural non-farm has a disequalizing influence on distribution. The question is: can such a disequalizing source of income be a dynamic source of poverty-alleviating employment expansion? Something needs to be done to make this more equalizing a source of income. A second problem is that these rural non-farm activities are all in non-traded sectors. The Bangladesh case study hints that their growth would be adversely affected if the trade regime were to be liberalized too far. It is doubtful if this relative autarky is either viable or desirable in the long run. The way for these activities to survive is probably to link them up with the export market, requiring a good deal of investment to provide necessary services. The issue of non-farm employment as a way out for employment-intensive growth has also been highlighted in the Ethiopian case.

Fifth, the case studies has also raised the issue of the working poor, the large numbers of workers engaged in strenuous, long but non-remunerative labour (e.g. Bolivia and Ethiopia). The way out of poverty is to make employment more productive for them and to get the higher productivity reflected in higher remuneration. The kind of action that is needed to attain this would depend on the nature of the problem and solutions would consist of one or more of many instruments, encompassing investment, access to resources, improvement in terms of trade for afflicted groups and structural change in the composition of employment.

In the context of this overall perspective, several strategies for employment generation have been put forward in the three case studies.

- *Agricultural growth:* Agricultural growth can help to enhance employment and reduce poverty if its labour intensity does not decline and if an appropriate environment prevails to ensure that the marginal and small farmers can participate in such growth. Agricultural intensification through higher crop intensity, crop diversification, more intensive application of inputs can help achieve some of these objectives. Non-crop agriculture, including livestock, fisheries and horticultural products, can also increase the employment-intensity of growth. The agricultural growth potential of the poorest areas needs to be assessed, and programmes should be adopted to realize it. All three country studies highlight this issue.
- *Rural non-farm activities:* As emphasized by both the Bangladesh and the Bolivia studies, concerted effort aimed at rectifying both demand and supply side constraints simultaneously is required to create a viable rural non-farm employment opportunity and may include, among others:
 - Establishing central and regional agencies that specifically cater to the needs of non-farm activities and ensuring that actors within the sector are properly represented in the governing bodies of these institutions, i.e. involve representatives of the different groups, including women groups, in policy formulation and implementation;
 - assisting cooperatives, trade associations, labour unions and interest/solidarity groups to protect members' interest, improve access to raw materials and markets;
 - strengthening and streamlining training activities, i.e. coordinating the various training activities given by different organizations. Resources are also required to design appropriate material and demand-driven training programs for the sector;
 - enhancing the skill of the rural poor through better access to basic social services such as health, education, safe water. Develop the capacity for technology development and dissemination of proven technologies;
 - establishing labour market information system such as wage rates, demand for workers in a specific area, etc. This would also encourage employers such as commercial farmers and surplus producers in high potential areas to expand their operation and create more job opportunities;
 - ensuring access to productive resources and physical capital including supporting financial institutions such as micro finance institutions and rural banks to ease the credit constraints of the sector.

- *Labour-intensive exports:* Promoting labour intensive exports would be an alternative to increase market access for small scale producers. Although it is difficult for small-scale producers to have access to external markets by themselves, they could be integrated as suppliers of intermediate inputs along the various stages of a given export oriented productive chain or cluster. In this way, the problem of narrowness and low purchasing power existing in domestic markets could also be overcome.

The most illustrative case on how integration of small scale producers into export oriented clusters can contribute to employment enhancement and poverty reduction is the case of the Soya cluster in the Santa Cruz department of Bolivia. The Soya small-scale producers are better-off in terms of incomes compared to agricultural economic workers that produce mainly for domestic consumption markets. Thus, greater emphasis should be placed on promoting the development of export chains or clusters, and to promote the integration of small scale producers into them. Sectors that have the potential to develop into more dynamic, export oriented productive chains and clusters are: tourism, wood industry, quinoa, textiles, leather industry, and the grape and wine industry.

- *Industrialization and manufacturing:* The focus of the revival strategy in the manufacturing industry should be to ensure that growth is sufficiently employment friendly and pro-poor. As strongly argued in the Ethiopian study, support should be provided to those manufacturing activities that are relatively employment-intensive and have strong linkages with the rest of the economy (e.g. textiles, food and beverages, tanning and dressing of leather, other non-metallic mineral products, paper products and printing, and wearing apparel) that serve as a source of job creation. Often, these activities operate below capacity owing to a number of supply and demand side problems. Special intervention such as improved access to credit, technological development, protection from unfair competition (from import), market information, other infrastructure, etc. is required in expanding these sectors.

Supportive policies and programmes to improve competitiveness and absorptive capacity are required for those manufacturing sectors in which labour-intensity has remained unchanged. Government support should also include the establishment of industrial zones and other common facility centres and business development services. It should be reiterated that the specific nature of the government support should emerge from consultations with the representatives of the stakeholders in the sector. Any policy that lacks the full support of the different actors is bound to have minimal impact.

Industrial entrepreneurs may consider going closer to the sources of labour and operate in semi-urban location and derive the advantages of hiring workers with some education. The Government may consider the provision of some incentives for locating enterprises close to rural areas and allocating a certain percentages of jobs for women. Incentives may take the form of fiscal provisions or subsidized access to utilities.

- *Supporting micro-enterprises and urban informal sector:* Micro and small-scale enterprises as well as informal sector activities perform poorly owing to a number of factors. The Bolivian study has stressed this point significantly and has identified the major determinant of performance as limited working capital and lack of access to financial services is limited. Partnership and networking are unknown and skill in business training and technical knowledge are lacking for the most part. Owners of small businesses lack the necessary capacity to benefit from innovative management and expand their businesses. As the small market is shared among too many operators, income earned is barely enough to meet subsistence requirement. The weak purchasing power of poor people for the products is often identified as one of the major bottlenecks for the growth of the enterprises. In addition, the business environment is hardly conducive for their sustainable development.

Both the Bolivian and the Ethiopian studies have argued for a comprehensive package of support necessary to address both the supply and demand side problems of the sector. The suggested measures include, among others:

- Setting up of Micro and Small Enterprise Development Agencies and strengthening by involving representatives of the different operators within the sub-sector in the governing board of the agencies in order to provide intuitional and policy support, information and consultancy advices, technical and marketing services, etc. based on felt needs;
 - supporting associations and networks, especially those catering to women entrepreneurs, and promoting the use of ICT wherever possible;
 - encouraging entrepreneurship to exploit niche market and product diversification: One of the ways to overcome the problem of producing the same kind of items and competing for local market is to develop and promote entrepreneurship;
 - enhancing domestic/local demand through improving marketing facilities (e.g. display centres) and agricultural productivity in the hinterland and increase income of town dwellers in order to overcome the weak market demand currently constraining small enterprises. Any improvement in the production, consumption and distribution linkages between small businesses in urban areas and agriculture would help increase income and productivity of both;
 - improving the business environment: and access to infrastructure such as working premises, telephone, water, and electricity, which are commonly cited as the immediate obstacles for small and micro-enterprise businesses. Effective ways must be sought to ensure that small enterprises benefit from the services of formal commercial banks, specialized banks and micro-finance institutions.
- *Employment generation for women:* Since the unemployment and under-employment rates are much higher among women, a policy option for

employment generation and poverty alleviation, as clearly identified in the Bangladesh study, is to promote labour intensive industrialization based on employment of female workers. The option has already been used by the export-oriented garment industries in Bangladesh. Despite the overwhelming role of private employers in the labour market, the Government can play an important role in a number of spheres, including both direct and indirect interventions, developing general guidelines along with specific interventions through various programmes.

To encourage women's employment in urban industries, the Government may adopt programmes for provision of services for the female employees (including transport services, health and housing facilities). In addition, women are currently employed in low wage jobs. Return to women's self-employment is lower. Education and skill training provide a key to the solution of both problems.

Moreover, employment and export-oriented sectors implies the possibilities of job loss with the fluctuations in export growth. Programmes must be adopted to minimize the adjustment cost of the workers who lose jobs. Finally, it should be emphasized that labour standards for female workers and gender equality in employment can be improved only when it is not at the cost of a deterioration of the labour standards provided to the male workers.

- *Public works programme and safety net programmes:* Public work programmes involving infrastructure development have an enormous anti-poverty impact, not only as an 'employment-based safety net' but also as contributors to sustainable growth and, hence, poverty reduction (e.g. Bolivia and Ethiopia). Safety net programmes – consisting of targeted employment programmes can provide some hope to extreme poor in rural households that are constrained by lack of initiative, entrepreneurship, skill and capital. Thus they cannot be expected to graduate from poverty through self-employment. Special employment programmes based on food aid can be thought of.

But public works programme and safety net programmes require proper design and planning, broad-based dialogues with beneficiaries, a good implementation plan and good monitoring and evaluation. They also require to be linked to the broader development objectives such as contributing to the public infrastructure in societies.

- *Dissemination of labour market information and recruitment channels:* Programmes are required for assessment of market demand for various types of skills and for publicizing such information. As the Bangladesh study points out, a mechanism can be worked out for monitoring and dissemination of short-term labour market signals, and for generating relevant information on the supply of and demand for various skills on a continuous basis. An institutional arrangement, involving public-private partnership, could be made for the purpose of dissemination of information about job opportunities, redundancies and so on. It should have a capacity for the preparation of an independent assessment of the labour market situation and its dissemination.

Employers' views on such schemes should also be sought as they are to play a critical role in its implementation.

- *Institutional aspects of employment policies:* Strategies for employment generation involve a multiplicity of organizations in their formulation and implementation. The institutional aspects of employment policies have been stressed in all three country studies. Strategies for employment generation must involve a participatory process among various stakeholders. Such participation should begin from the initial strategy formulation process and continue not only up to the implementation process, but also to the monitoring and the evaluation of policies. The process must involve poor people effectively and strategies should be flexible but well-targeted at them.

In this context, community-based organizations and NGOs often demonstrate an advantage. They have a better link with local realities where they work. The formal private sector and public agencies can benefit from these linkages between local experiences and broader development framework.

A significant upward shift in self-employment among poor people requires new initiative, new activities and new modalities of investment. Such a change requires a restructuring of the institutional relationships and linkages.

5.3 Strategies for integration of poor people into the growth process

Strategies for integrating poor people into the growth process would encompass measures that would enhance their access to education, through skill formation, improve their access to productive resources including inputs and, finance and credit and other income-generating assets.

- *Invest in human capital:* It has been clearly shown that low educational and training levels of the labour force have hampered increases in productivity and incomes (e.g. Bangladesh and Ethiopia). This in turn has prevented the curtailment of the high levels of poverty incidence among workers. Education indicators have improved, but they are still low by regional standards, particularly related to the quality of education.

Thus, policies should focus on raising the quality of the education system, particularly for poor people. This should include implementing an education sector strategy aimed at developing basic cognitive skills and improving the productivity of the labour force. The main elements of this strategy should include: filling coverage gaps in universal basic education, improving secondary education transitions and access to private higher education for poor students, addressing low quality and inequalities in education achievements at all levels, training in high schools and colleges on relevant skills demanded in the labour market. These issues have been alluded to in the Bangladesh study.

The Ethiopian 1994 education policy document stipulates that one of the strategies of the education policy is the promotion of vocational and technical education and training. The aim has been to establish a vocational/technical training system with appropriate linkage to the academic system. Technical

and Vocational Education and Training (TVET) has been given special emphasis and an extensive program aimed at restructuring the technical and vocational education and training was launched in 2000. Training curricula have been developed for many trades in modular form for 10+1, 10+2 and 10+3 level.

Investment in human capital is important as the probability of an individual entering a non-farming occupation as full-time economic activity increases with level of education. The Ethiopian study has shown that returns on education in these activities can be as high as 18 per cent per year. Hence, education determines entry into these jobs and that the return on education is substantial.

The use of modern inputs such as fertilizer was found to be positively influenced by education in a number of studies on Ethiopia. Farmers who are literate use fertilizer 29 per cent more intensively than their illiterate counterparts. The intensity of adoption of new innovations also increased to 115 for farmers with 4 or more years of formal education, as compared to those with less than 4 years of schooling. It has also been observed that the probability of adopting chemical fertilizer increased by a factor of 1.15 for farmers who had above average level of education.

Human capital has both direct and indirect effects on household welfare. Schooling indirectly affects welfare through both its effects on increasing the adoption of innovations and through enabling farmers to enter into profitable non-farm activities. In aggregate, in Ethiopia, an extra year of schooling raised household welfare by 8.5 per cent.¹⁷ By investing more in human capital, farmers become more willing and more able to adopt technology and consequently earn higher income and escape out of poverty. These pieces of evidence do suggest that education is one of the processes by which a society can preserve, enrich and transmit the accumulated knowledge, skills and values of its cultural heritage and environment in order to foster the well being of the population.

- *Improve access to basic social services:* Basic social services like health services, safe water and basic sanitation to poor people require five “A”s: *availability, accessibility, affordability, acceptability, and adaptability*. Measures are needed to ensure these five “A”s. Availability and accessibility would require policy measures and resource allocations, particularly from public expenditures. Affordability needs rethinking of the notion of *user cost* and acceptability requires that the provision of services should be designed in such ways so that they are acceptable to poor people. The design and the location of such services are also critical for the adaptability of poor people with the services. With regard to basic social services, it is not only the quantity, but also the quality of services which is important.
- *Enhanced access to productive resources:* Productive resources include land, inputs, finances and credit. With regard to land, land reform and other

¹⁷ Demeke, Guta and Ferede (2003).

measures for land tenure may ensure ownership of land by poor people. Agricultural inputs also include fertilizer, improved seeds, and irrigation. In these areas, strategies for subsidy to poor people may help them have access to these inputs. Credit and financing is a major area where poor people may have very little access to institutional sources. Specialized provisioning sources, specific collateral requirements and interest rates may help poor people to have access to financing. Micro-finance has also been proved to be quite effective. All the three studies (Bangladesh, Bolivia and Ethiopia) have emphasized the issue of enhanced access to productive resources.

Small and medium scale enterprises can also benefit from tax and monetary policies which are conducive to them. For example, specific tariff rates for machinery imports by such firms may help them to be more productive and generate more employment. Special monetary policy in terms of interest rates may enhance their access to financing, which they require for fixed and working capital. Firms in the informal sector can also benefit from the conducive legal framework in that sector.

- *Addressing HIV/AIDS:* In Ethiopia, HIV/AIDS crisis is currently killing the prime labour force of the country. With the world's third largest population of HIV/AIDS patients, the impact of the disease is likely to be more catastrophic than even the worst drought the country has ever faced. High level of poverty, widespread hopelessness among the youth (due to lack of employment) and demobilisation of soldiers (which took place twice between 1991 and 2001) has undermined the effort to control the spread of the disease. The country needs to mobilize all available resources to control and minimize the impact of the disease. Families and orphans affected by HIV/AIDS should be supported through community-based programs with long-term commitments to ensure that orphans are getting education and their food requirements are met. The government should place HIV/AIDS at the centre of its activities, along with food security and poverty alleviation programs.
- *Policies for groups at risk:* The multiple aspects of vulnerability in the labour market, in particular the large overlap between work and poverty, have important implications for the design of a comprehensive national poverty reduction strategy. This point has been highlighted in all the three country studies. A clear understanding of the groups at risks is essential as to better meet the needs of specific groups and improve the effectiveness of public policies in terms of reducing poverty. It should be noted, however, that a mere shift in sectoral emphasis in terms of resource allocation to rural development will not be sufficient if the benefits of policies aimed at a specific sector such as agriculture are slanted in favour of upper class groups. Policies will have to be designed that specifically favour the target groups in question – poor people.

6. Conclusions

The six country studies – Bangladesh, Bolivia and Ethiopia – have made good contributions to the understanding of the economic growth-employment-poverty nexus through providing good account of overviews of the situation, identification of constraints and raising policy issues. All these studies examined – using a common framework but accounting for country specifics - the nexus from a macro, sectoral and micro perspectives with an analysis of the interactions and dynamics within the nexus and identifying strategies for win-win situations.

There is no denying the fact that six country studies can be of immense use in other situations as well in terms of analysis, identification of constraints, data limitations and policy options. Through addressing the notion of pro-poor growth, the studies have also clarified many issues for other countries.

In spite of all that the country studies have achieved, there are a number of other issues that remain to be more fully explored; they include:

- *First*, the issue of integration of poor people into the growth process requires enhancement of their capabilities through access to basic social services – health, education, safe water and basic sanitation. Even though there were some references to education and skill formation in the three country studies, the issue of access of basic social services by poor people did not get the required attention, either in terms of analysis or in terms of strategies, in any of the case studies.
- *Second*, the same can be said about the access of poor people to productive resources. There are some discussion on the issue of assets of poor people in the Ethiopian study, but a systematic approach to the issue of access to productive resources is absent in all studies.
- *Third*, except of the Bangladesh study, the issue of gender has remained totally ignored in other two studies. But it is well-known that gender aspects of employment are crucial for employment, growth and poverty reduction.¹⁸
- *Fourth*, the studies needed to devote more attention to macroeconomic policies, particularly to the incentive system, which could have been a major focus of analysis seeking explanation for variations in employment intensity.
- *Finally*, the issue of globalization and its impacts on labour markets and employment has been bypassed in the three studies, while in today's globalized world, issues of sectoral composition of employment, employment-intensity, and real wage are changing with implications for pro-poor growth and poverty alleviation.

¹⁸ For an analytical and policy treatment of this issue, please see Jahan (2005).

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