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**Cities with Jobs: Confronting
the Employment Challenge**

Policy paper

Adrian Atkinson

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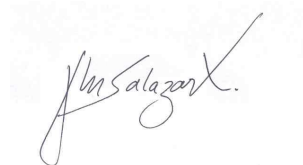
Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community. The integrated approach to do this was further reaffirmed by the 2010 Resolution concerning the recurrent discussion on employment².

In order to support member States and the social partners to reach this goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations and elaborations of this integrated approach and related challenges are contained in a number of key documents: in those explaining the concept of decent work,³ in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda and, as applied to crisis response, in the Global Jobs Pact adopted by the 2009 ILC in the aftermath of the 2008 global economic crisis.

The Employment Sector is fully engaged in supporting countries placing employment at the centre of their economic and social policies, using these complementary frameworks, and is doing so through a large range of technical support and capacity building activities, policy advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.



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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See http://www.ilo.org/public/libdoc/ilo/2010/110B09_108_engl.pdf

³ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

⁴ See <http://www.ilo.org/employment>.

Foreword

This Policy Paper originates in a concern amongst a core group of Cities Alliance Development partners that job creation is not sufficiently integrated into the Cities Alliance City Development Strategies and Slum Upgrading Strategies. This concern is combined with the conviction that employment is a key for successful implementation of these strategies and well as for their sustainability. The International Labour Office (ILO), whose mandate is to assist governments and other social partners to achieve full and productive employment and decent work for all, was requested to lead a consultative process whereby its experience in the field of job creation can be used to produce a Policy Paper presenting what local authorities, together with their local, national and international partners, can do to integrate job creation into their urban development and investment plans.

This Policy Paper therefore is built on the foundation of an ongoing consultative process with Cities Alliance Members and Partners. It represents one step in a process which should ultimately support city governments and their partners in the creation of decent and productive work. Background to this Note is provided by three case studies describing initiatives for job creation and improved working conditions in Brazil, in Philippines on South Africa and a research paper published as a separate document. This Policy Paper distils the conclusions of this research. It provides an overview of the global employment crisis, a description of what some local authorities and their partners are currently already doing in this area and then presents a summary of an integrated approach for job creation that can be taken at the urban level.

It is recommended that this Policy Paper be circulated widely amongst local authorities, particularly in the context of the further development of City Development Strategies. One or two cities which are in the process of developing CDS or Slum Upgrading Strategies, with the support of Cities Alliance development partners, may wish to test this Policy Paper as a tool for the integration of employment into their development and investment plans. Such piloting could lead to the development of a local employment strategy.

The Policy Paper can be used to raise awareness, provide an agenda for discussion with development partners and give concrete guidance for the generation of employment and decent work.

This Paper benefited from Mr. Adrian Atkinson's extensive experience in urban development and from inputs from the ILO Global EIIP Team, in particular Marja Kuiper, Terje Tessem and Mito Tsukamoto; and from the Job Creation and Enterprise Development Department, in particular Kees Van der Ree from the Employment Sector; other ILO experts, in particular, Edmundo Werna, from Sectoral Activities from the Social Dialogue Sector and Steven Miller from the Economists for Full Employment Network.

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Abbreviations and acronyms

AFD	Agence Française du Développement
ALMP	Active Labour Market Policies
BDS	Business Development Services
CA	Cities' Alliance
CDASED	Committee of Donor Agencies for Small Enterprise Development
CDS	City Development Strategy
CEB	Executive Board for Coordination (UN)
CGE	Computable General Equilibrium Model
CIDB	Construction Industry Development Board
CIS	Commonwealth of Independent States (ex-Soviet Union)
CSDG	Commission on the Social Dimensions of Globalization
EPZ	Export Processing Zone
EURADA	European Association of Development Agencies
FDI	Foreign Direct Investment
HLCP	High Level Committee on Programmes (UN)
IFI	International Financial Institution
ILO	International Labour Office/Organization
IMF	International Monetary Fund
IT	Information Technology
JBIC	Japanese Bank for International Cooperation
KfW	Kreditanstalt für Wiederaufbau
LED	Local Economic Development
LEDA	Local Economic Development Agency
NIC	Newly Industrializing Country
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
SAM	Social Accounting Matrix
SEDA	Small Enterprise Development Agency (South Africa)
SIYB	Start and Improve Your Own Business (ILO)
SME	Small and medium (or Micro) Business
STEP	Strategies and Tools against social Exclusion and Poverty
SUS	Slum Upgrading Strategies
TREE	Training for Local Economic Empowerment
UCLG	United Cities and Local Government

UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UN-HABITAT	United Nations Human Settlements Programme
WTO	World Trade Organization

Introduction

Since the mid-1980s formal employment has increasingly been overshadowed by the growth of the ‘informal economy’ where increasing numbers have sought refuge for lack of secure job opportunities. This situation has now been compounded by an economic slowdown as a result of the global financial and economic crisis.

Indirect approaches to job creation have proved to be lacking in the face of low employment impacts of economic growth, combined with growing informalization of employment.

Insufficient attention has been paid by the development community at large and more specifically on the part of local governments to the insufficient growth of productive and decent employment, particularly in the face of continuing rural-urban migration and the rapid urban population growth in developing countries resulting in swelling numbers of the urban poor. Recent initiatives in Local Economic Development (LED), whilst aiming indirectly at employment creation, have taken insufficient account of the growing need for pro-poor job creation. Economic growth in some cases can be characterized as ‘jobless growth’ where productive investments increase output and wealth without creating enough new jobs. In other cases, growth has resulted in job creation, but primarily jobs with low pay and poor working conditions in the informal economy, which has fuelled growing informalization in the urban informal economy.

The latest financial crisis resulted in rapidly rising unemployment.

The Global Employment Trends 2011 show that if the recovery in output growth is weak and employment is not properly addressed, despite the strong and swift response to the crisis. Many economies now face the real prospect of a protracted period of sub-par growth. Global employment has continued to grow throughout the crisis, though at less than half the rate observed prior to the crisis). Fundamental questions are being asked concerning the ground rules of the global economy together with the conventional approaches taken at the local level that attempt to generate employment. New approaches to employment generation are being sought and this Policy Paper is intended as a contribution to these ideas and initiatives.

Employment generating initiatives in the past have been mainly top down whereas the potential for decentralized local governments to contribute to job creation has been neglected.

Employment generation initiatives have generally been ‘top-down’, initiated by central governments, often supported by international agencies. Employment creation has generally been peripheral to the remit of local governments. In many countries decentralization is leading to local authorities taking on more responsibility for the development and management of their own populations, economies and territories (Klink, 2006).

In this context, the focus in this Note is on what city governments, together with other local partners, can initiate to combat the employment crisis.

This Note has three Chapters, the first setting out the context for urban employment generation, the second describing current initiatives and the third proposing a comprehensive approach to creating productive employment and decent work.

Chapter One provides background information aimed at helping actors at the local level to understand the context for urban employment creation. Chapter Two reviews current initiatives at the local level aimed at generating employment. This considers both how local governments can use their own budgets in ways that optimize job-creation and how they can work with other local actors to stimulate employment through the creation of small enterprises and cooperatives. Chapter Three goes beyond current usual practice, presenting a comprehensive strategy for local employment generation where local governments in an enabling environment facilitated by central governments, work in close cooperation with other local actors. The heart of the strategy sees a process of re-examining the local economy from the point of view of local economic and social needs to determine how these can be satisfied through local initiative and local resources – whilst continuing to explore possibilities for positioning the local economy in a context of globalising markets. Many boxes are included with the intention of giving practical guidance on how the strategic concepts raised in the Note can be put into practice. By briefly describing a variety of employment-creating initiatives, the Note points the way to a more coherent practice on the part of local governments around the world where progress is already being made.

Chapter 1: The Context of Local Employment Generation

The optimism and expectations of the last century that all countries would eventually industrialize have not been realized.

In many parts of the developing world, rural settlements have grown into towns and towns into cities – and even megacities – but this urban growth has rarely been accompanied by significant industrialization. Furthermore global economic and employment trends are leading to the growth of informal employment in labour markets in both industrialized and developing countries (Sassen, 1997). Whereas the global development process has served the interests of certain countries well, relatively few regions, with the exception of some emerging markets within the developing world, have taken on major roles in production for the global market. This has left countries elsewhere with weak economies reflected in widespread poverty and a poor urban physical environment, lacking basic infrastructure and with extensive, often self-built, slums. Although the ‘informal economy’ and unplanned ‘informal settlements’ are not one in the same, they characterize urbanization in many parts of the world and provide closely intertwined challenges for cities and urban policy makers.

The World Commission on the Social Dimension of Globalization,” while recognizing the benefits of globalization, highlights a growing consensus that “the current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits” and “these global imbalances are morally unacceptable and politically unsustainable.” (ILO, 2004)

In response to the challenges laid out by the April 2009 G20 Summit on “Stability, Growth and Jobs”, the June 2009 International Labour Conference adopted a *Global Jobs Pact* to accelerate employment creation, jobs recovery and sustainable enterprises, which included the following recommendations:

- helping jobseekers by improving public employment services, investing in workers’ skills development, in particular for vulnerable groups;
- limiting job losses by supporting enterprises in retaining their workforce;
- promoting job creation by small and medium-sized enterprises (SMEs) and micro-enterprises, including coops;
- investing in public employment guarantee schemes and other job creating public works programmes;
- implementing a supportive regulatory environment conducive to job creation through sustainable enterprise creation and development; and
- increasing investment in infrastructure and “green” jobs.

The formal recognition by world leaders that further and larger stimulus packages are needed to achieve the above goals means that substantial additional funding will be made available from central budgets for public employment programmes (PEP), notably in infrastructure investment. Such public funding creates many possible choices for national and local governments on how to most effectively create employment and to increase the employment impact of stimulus packages. There is therefore a large and often untapped potential for local governments to be involved and help channel these resources through local-level planning for employment-intensive investment approaches in infrastructure development.

The rise in urban poverty is directly connected to the lack of productive employment and decent work.

Urban poverty is multidimensional involving interrelated dynamics in the governance, infrastructure, basic services, economic and employment spheres. Lack of access to employment and adequate income is a determining factor of poverty, especially in urban areas; and improved access to employment impacts positively on the other dimensions of urban poverty such as inadequate housing, disempowerment and lack of basic services, of social protection, of access to health, education and personal security. Urban dwellers are required to spend a larger part of their cash income on basic goods and services (food, fuel, water, shelter, sanitation) than rural dwellers. Therefore poverty and insecurity, even while possessing multiple causes, is fundamentally connected to the lack of employment. Large numbers – in many cities, the majority - of the workforce cannot find formal employment and in most developing regions informal employment exceeds formal employment. Informality often means becoming self-employed or establishing a micro enterprise - usually of one person or involving the family as part of the informal economy – or taking a job as a low-paid employee in the informal service or commercial sectors: all of these alternatives in most cases bring little income and are no more than a coping strategy. Mean While, many formal businesses are shedding their workforce and putting out work to home-workers and others who work without formal contracts and hence without social protection.

This situation is problematic both at the personal and family levels and at the level of the local administration. Informal workers have inadequate access not only to income but also to literacy, numeracy and/or other basic life skills and have no access to social security, including health insurance, unemployment benefits and / or pensions. Living and working in unsanitary and sometimes hazardous conditions, they lack opportunities to improve skills; and if they do wish to invest in an enterprise, they lack access to capital.

The current global economic crisis is exacerbating these circumstances with women and young people the worst affected. The informal economy is sometimes seen as a “shock absorber” in times of economic recession. Unemployment is pushing many more into the informal economy, and even with an economic recovery that will revive at least some formal employment opportunities, this will not be enough to absorb the growing numbers of urban job-seekers. Given that the economic growth of many cities in developing countries lags the growth of their urban labour force, the overall situation is one of fierce competition for jobs, ultimately leading to deteriorating earning opportunities for the active population in the informal economy, making it more and more difficult for ever larger numbers to earn an adequate living in addition to suffering the multiple insecurities outlined above. Furthermore, evidence has shown that the relationship between economic growth and informality is ambiguous; and even when growth resumes, it is likely that many heretofore formal jobs will become informal (Heintz, 2006).

A greater understanding by local governments of the structure and dynamics of informal employment is the first step towards policies which support the transition to formality, productivity and social protection

Urban informal economies operate well beyond the interests of most local governments in terms of their ideas on local economic development, all too often possessing a negative attitude. They tend to see street traders and waste pickers and other informal enterprises using the streets to undertake their activities as a nuisance. In so far as much informal economic activity takes place in homes, where women divide their time between poor-paying work, childcare and other household duties, this is simply invisible to the authorities. In reality the informal economy is the urban economy for the majority

of citizens, serving both the needs of the poor and even providing significant support by way of cheap labour and services to the 'formal' economy.

Notwithstanding the low level of financial and technical resources available to smaller local authorities in developing countries, the failure to take into account informal economy activities undermines efforts of the authorities to initiate development processes for creating liveable cities. An important dimension of such responsibility is the development and implementation of measures to overcome the levels of poverty and of insecurity suffered by large sections of their citizenry. For many of the urban poor, and urban youth in particular, insecurity and the lack of prospect to improve their situation, leads to desperation. This is resulting in many cities to deteriorating security and the rise of crime. This becomes a cost to local authorities in terms of the need to spend resources on increased security measures. It would be far preferable if the resources were spent on reducing insecurity amongst the poor by assisting in the development of basic life competences and by stimulating the generation of productive and decent employment.

With more focused awareness of how the city functions economically for the majority of its citizens, local authorities would recognize that present efforts to generate employment are insufficient. While foreign direct investment and the activities of formal enterprises have provided local jobs, these are generally insufficient to absorb the growing labour force. While positive examples of a two-pronged strategy exist, cities that focused their attention on attracting foreign and national inward investment have sometimes neglected to provide a conducive environment for their local enterprises, in the formal or informal economy. Furthermore, the present global economic depression is destroying jobs in far greater quantities than they are being created.

International development agencies are available to assist local authorities to develop pleasant and convenient cities and productive and decent work for all.

Local governments should not see this as something they learn and then do in isolation. National ministries and in many countries municipal development agencies provide assistance ranging from a facilitatory legal framework through financial support – using Municipal Funds - to advice and training. Certainly there is a range of international and bilateral development and financing agencies and organizations together with non-government organizations (NGOs) that have the experience and resources to help the local development process (UN-Habitat, UCLG, CA, ILO...). These can be approached directly by municipalities or through their national municipal associations to help to develop strategies and programmes designed to implement activities that may be expected to increase local employment and the enhancement of local income generation.

Chapter 2: Local Government Employment Generation Initiatives

The activities of most local governments have a direct bearing on the generation of local employment whether or not they focus attention on this. In fact, local governments have a number of often unexploited comparative advantages for job creation.

In recent years there has been a resurgence of local responsibility under the heading of 'subsidiarity' and this decentralization is resulting in a considerable widening of local authority responsibilities in many countries. However decentralization of resources has often not matched decentralization of new responsibilities making it difficult for local governments to carry these out effectively.

There remains, however, a very wide distance between the financial and administrative capacities of local authorities depending both on the size of the municipality and on the powers and resources handed down from the central governments. At one extreme, cities in Scandinavia, already rich countries, administer around 50% of all government revenue and are often the largest local employer. By contrast, in most of the poorer and, indeed transition countries, local governments spend little more than as 5% of total government revenue. Often, central and sometimes provincial governments are responsible for investing in and administering much local activity that has a significant impact on local employment.

Nevertheless, in spite of restricted budgets and lack of technical capacity, local authorities everywhere have some responsibilities involving the purchase of goods, services and works, the employment of functionaries and the contracting out of these activities. This involves choices, all of which can have significant impact on the generation of local employment. And where central or regional government agencies or enterprises are undertaking local activity, local governments, possibly through their municipal associations, can and should act to influence the way in which these activities are carried out. Furthermore even poor – and certainly more affluent - local authorities can and do take low cost actions in attempts to influence the quantity and quality of work done within their jurisdiction.

It is a paradox that cities in developing countries require so much work to be done and yet so many of their citizens are un- or underemployed. This situation is not inevitable and urban authorities have tools at their disposal permitting them to influence and to plan the development of cities to generate and facilitate productive employment and decent work.

2.1 Procuring Goods and Services

In carrying out directly, or purchasing, services such as education, health care and security services municipalities have relatively little flexibility to determine how many people will be employed although the services themselves can – and indeed should – contribute to the general welfare and efficiency of the city that will facilitate generation of employment-inducing economic activity.

However, local authorities are responsible for the purchase of very many goods and services that might range from vehicles to tools and equipment, furniture to special clothing, office supplies to school meals, and from waste collection to street cleaning. The normal procedure, where, as is usually the case, these are purchased in bulk, is for

these to be subject to open tender. Suppliers might be local or, when amounts are larger, suppliers from elsewhere may find it attractive to bid. As long as the tender conditions are fulfilled, the cheapest bid will be selected.

All municipalities have responsibility to procure goods and services and can influence the amount of employment generated in making purchases. National procurement rules can be (re)formulated to encourage municipalities to seek employment-creating approaches to procurement.

In practice, where and how these goods are produced can make a difference regarding the quantity and quality of labour used to produce and supply them and clearly also where they are produced. The tendering process can be adapted to ensure that local government purchases are not only cost effective but are made in a way that maximizes the amount of labour used in production and supply and where appropriate favour locally produced goods and materials. Often enterprises are established in response to local authority needs, ranging for instance from production of waste bins from old tyres (Phuket, Thailand) through packaging materials manufactured from waste paper (Kathmandu, Nepal) to the modification of vehicles to run on natural gas (Rio de Janeiro). Green jobs and ‘greening’ the city through the contracting of small scale and/or community enterprises for waste collection (Tanzania, Somalia), street and drain cleaning etc. are also ways to promote local resource-based procurement. Once established, such enterprises need not only produce for the local authority and thus the local authority can ‘pump prime’ local production also for other institutional or commercial or even household markets.

Box 2.1 local production of schools uniforms

In many countries initiatives are being taken to produce school uniforms through letting contracts to small local businesses. In Peru, for instance, production of school uniforms is contracted out to an association of small and micro enterprises. In countries where this does not happen, local authorities might look into the possibilities. National procurement rules may not permit the letting of many separate, small contracts and so an association of producers needs to be established that can bid for the contract and then subcontract to the local producers. The contracting authority will need to be convinced that contract clauses need to be introduced to ensure that the work is actually subcontracted locally and not undertaken by one large contractor – possibly no longer local.

Assistance may be provided in three areas. Firstly once formed, the association will need to develop the ability to manage the tendering procedure, to make a bid and win the tender. This expertise will also need to extend to the capability of the association to let and manage subcontracts. Second, most cities and even small towns already have tailors competent in making clothes and if not already working together in small or micro-enterprises might need help in this respect. Finally, whilst the basic skills might be present, the association will need to ensure an acceptable quality of product from the subcontracted members and hence have the capacity to assess and to advise on the quality of the uniforms produced.

These are small examples, but if local authorities orient their purchasing systematically towards local resource-based production, this could make a significant impact on available jobs. Furthermore the multiplier effects – the income to those serving the needs of employees of the enterprises producing for the local authority – could also be significant. And finally, success with such an orientation can initiate a virtuous circle with further enterprises arising to supply materials and components for those already established. Here it should be noted that although there are small experiences of this kind in many towns and cities, this has almost nowhere been looked at in a systematic way.

In making more flexible use of local budgets, vigilance should be applied to avoid favouritism and corruption.

This approach is not, however, problem-free. Current thinking with regard to public purchasing is that this should always be in accordance with open tendering with complete transparency. European procurement rules, or those for instance of the World Bank, indicate that smaller contracts may be subject to national competitive bidding but larger contracts should be open to international tender. The reasoning here is to reduce opportunities for graft and corruption. Whilst being a problem at the level of national government, this is also evident at the local level where municipalities normally are seen as good business opportunities and where some have been captured by particular business interests, such as to become the monopolies of particular families or of organised crime.

Providing profits for the few, this is often far from serving the best interests of the citizens more generally. Unfortunately, such practices are still widespread and the introduction of strict procurement rules involving open tendering with the selection process open to public scrutiny in the context of democratic local government and generally ‘good governance’ is designed to overcome these problems. Encouraging the local procurement of goods and services is compatible with transparency and good governance and an enabling contracting system is key to develop and sustain such public-private partnerships between municipalities on the one hand and (associations of) small enterprises and community organizations on the other.

Box 2.2 World Bank Procurement Guidelines: Article 3.15 on Community Participation in Procurement

Where, in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable in selected project components to (i) call for the participation of local communities and/or nongovernmental organizations (NGOs), or (ii) increase the utilization of local know-how and materials, or (iii) employ labour-intensive and other appropriate technologies, the procurement procedures, specifications, and contract packaging shall be suitably adapted to reflect these considerations, provided these are efficient.

Targeting of local government purchasing can go further to favour job creation for disadvantaged groups such as women, youth and the disabled and to help enterprises in the informal economy to improve their performance and income.

In countries where procurement rules preclude or restrict tendering to local businesses and/or community-based organizations and/or are biased against small contractors and the use of local labour, it is recommended that local authorities make common cause with their neighbours and particularly approach their municipal associations for assistance to have the rules modified. In many countries there are specific national organizations that supervise the public tendering system and reforms should be addressed directly to these organizations. For instance, in Brazil, federal legislation and highly complex tendering procedures make it very difficult for local authorities wishing to use the National Growth Acceleration Programme (PAC) explicitly for employment and income generation in slum upgrading. Various bottlenecks and time delays limit the potential of the PAC to be integrated as a component of a local economic development programme. (Klink, 2009)

2.2 Procuring Works: Creating Infrastructures and Creating Jobs

A related area where cities have a comparative advantage for job creation concerns investment policies. Infrastructure investments present an opportunity to create new sources of employment, especially in an urban setting where the needs for slum upgrading and infrastructure improvements are enormous.

The potential for employment creation in infrastructure investments is greatly underestimated and under-exploited. A large proportion of national public investment budgets – sometimes up to 70 per cent – goes to the infrastructure sector. Infrastructure works are “doubly blessed” in that they create and sustain employment, while at the same time improving living conditions and laying the foundation for long-term growth. It is therefore not surprising that in the wake of the global financial and economic crisis the ILO Global Jobs Pact calls for both emergency public works as a safety net and increased investment in infrastructure to accelerate recovery. The World Bank also pledged increased spending in infrastructure:

“The World Bank will increase infrastructure investments to \$45 billion over the next three years to provide the foundation for rapid recovery from the global economic crisis. Investments in infrastructure can provide the platform for job creation, sustainable economic growth and overcoming poverty, and help jump start a recovery from the crisis. The Latin American and Asian crisis showed how countries can suffer from a decline in infrastructure, leaving a weaker foundation for long-term economic growth that hits the poorest the hardest.” (World Bank Press Release April 23, 2009).

However, for such infrastructure investments to effectively reduce poverty, greater attention needs to be paid to their employment potential. In the urban sector, labour-based techniques can be applied to a wide range of infrastructure works, including improvement of streets and access ways, water supply reticulation, sewerage and flood protection measures, public washing and toilet blocks, solid waste management infrastructure, public buildings including markets and infrastructure specifically satisfying the needs of the informal economy, open spaces and city greening. They can also be applied to certain operations of large-scale infrastructure works normally left to equipment-intensive companies, such as bush clearing and digging in dam and highway construction. In Durban, South Africa, some of the major capital projects in urban regeneration implemented since the late 1990s, such as waterfront, industrial estate, convention centre projects as well as more recently transport upgrades and new stadiums for the 2010 FIFA World Cup, have been and are still undertaken in a way to maximize employment and skills transfer during construction and also offer empowerment opportunities for black or women-owned enterprises that had previously had little access to public contracts (Robbins and Hobbs, 2009).⁵

⁵ These large scale capital projects were accompanied by a simultaneous policy to support existing or emerging business nodes including in the informal sector: over 60 discreet projects were funded covering road upgrades, informal trading facilities, precinct improvements and other requirements that were identified with the local stakeholders. These projects were generally undertaken by small-scale local contractors in an attempt to boost local enterprise capacity and support local employment. Furthermore, the allocation of public space and the provision of infrastructures such as shelter, storage and ablutions has contributed to improved working conditions of informal traders.

Experience in many countries shows that explicit pro-employment and appropriate technology choices can be made, at equal cost and quality, with multiple payback: (i) higher direct and indirect employment creation; (ii) development of small-scale local contractors who buy and sell in the local economy; (iii) import substitution by using local resources; and (iv) maintenance is facilitated. Moreover, such methods are often the only feasible technologies in densely built slum areas.

Box 2.3: South Africa's National Procurement Policy

Recognising that government investments, if astutely targeted, can achieve multiple development goals – including addressing serious unemployment problems - the South African Government has adopted a Targeted Procurement policy framework that facilitates local governments to formulate tendering processes to achieve multiple goals:

...to foster creation of jobs, to promote capacity building, to promote the use of local resources, to prohibit discriminations against minority groups, to improve environmental quality, to encourage equality of opportunity between men and women, or to promote the increased utilization of the disabled in employment

Making the social benefits just one of the criteria relevant to the contract award, which must be balanced against other criteria (such as price and quality), ensures that social benefits are obtained with the minimum possible costs to government.

In South Africa's Expanded Public Works Programme, procurement rules have been adopted stipulating that contractors use labour-intensive construction methods and favouring small local contractors who absorb at least some of the locally unemployed and in the process train them in construction skills.

The social advantages of employment-intensive approaches are first and foremost the wages distributed to a largely unskilled and poor workforce. These wages create a multiplier effect, stimulating consumption, investment and savings, thus boosting the local economy (over and above the benefit of the infrastructure itself). The indirect employment generated by labour-based methods is estimated at between 1.5 to 3 times the number of directly generated jobs.

These results are obtained because the term “labour-based” encompasses a wider approach which seeks to optimize the use not only of skilled and unskilled labour, but of all locally available resources and skills, including building materials, equipment and tools, small contractors, artisans and community-based organizations. A higher input of local resources means fewer imports and more developed backward and forward linkages in the domestic economy. This approach increases the overall direct and indirect impact on employment. As a result, local resource-based infrastructure works achieve high multiplier effects.

Experience has shown that labour-intensive public works can be implemented with timely and high quality results. Also, such “public” works can be implemented by the private sector, and provide an opportunity for young people to gain job experience, or even to start a viable enterprise in small-scale contracting, in engineering consulting and in a variety of ancillary services.

Investment decisions are being taken increasingly by local, rather than regional or national governments. Typically labour-intensive construction methods are appropriate for developing countries where wage rates for unskilled labour are low. However, there is scope for almost all countries to create new jobs by critically examining contracting and construction methods and by adopting methods which, at the margin, are both cost-effective and labour-intensive, while at the same time providing high quality results.

The tendency towards decentralization and devolution of responsibilities and resources is accompanied by new powers of municipalities to raise taxes and to use their proceeds at the local level. These resources and powers can be harnessed by mayors in favour of job creation.

Municipalities could consider adopting policies to ensure an optimum use of local resources, including labour, in infrastructure investments and maintenance, including slum upgrading. These works can be planned and implemented with community participation, and develop skills and capacities of beneficiaries and small contractors alike.

Local resource-based methods can also be used in the upgrading of informal settlements or in more ambitious programmes to construct housing for low income groups. Upgrading programmes lend themselves naturally to participatory planning of measures to be taken and labour-intensive construction methods in that heavy equipment cannot generally access the narrow alleyways typical of informal settlements in many cities. It is therefore necessary for municipalities to consider, whatever their housing programmes might entail, how local resource-based methods can be systematically applied.

Box 2.4 Employment aspects of slum upgrading: case study of two South African cities

Since the mid-1990s, housing has been a major focus of the democratic South African government; it is the dominant category of state expenditure on infrastructure at the local level. While employment-intensive infrastructure investments are one of main components of the country's active labour market policies, there are relatively few explicit policy signals linking employment generation with housing at the national level. At the local level, two case studies (Cato Manor in eThekweni/Durban and Valorous People's Housing Process near Johannesburg) had very positive employment spin-offs, mainly because **employment creation was part of the vision from the start**.

Lessons from these two case studies include:

- Employment concerns should be addressed and integrated during the planning stage, and not only when construction is ready to begin
- Political pressure to fast-track housing delivery impacts negatively on community mobilization, training, potential employment creation and linkages with other projects in the area
- Holistic approaches to slum upgrading, that seek improvements in the built, social, economic and institutional environments, including community empowerment, are more sustainable and create more employment
- The parceling of infrastructure and housing projects into sub-projects facilitates the emergence and involvement of local contractors
- Measures to sustain employment in the post-construction phase comprise skills development, targeted procurement in service provision and infrastructure maintenance, improved coordination with local planning, human resource development and private sector promotion activities. In Cato Manor, a Job Opportunities Bureau was established to link local labour and local small contractors to job opportunities in and outside the area.

Source: Robbins and Aiello, 2005

The South African cases in box 2.4 above shows that important synergies and more development can be generated if infrastructure and/or slum-upgrading works are conceived as simultaneous opportunities to create jobs, develop the small scale private sector and encourage community participation – while improving the physical environment. Overall experiences with this type of public-private partnership

show that it is possible to create win-win situations: jobs are created at the local level, community organizations gain capacities, negotiation skills and empowerment, enterprises gain access to a business opportunity, services improve and the costs of these services or works are often reduced, with additional benefits to the wider community – cleaner environment, cheaper and more reliable water supply, better maintained roads and drains, etc.

Successful public-private partnerships, between the local authority on the one hand and small contractors and/or community organizations on the other, require a change in the role of the parties involved. Local government can be supported as they move from delivering services and works to managing private sector delivery. The (often newly emerged or formalized) local contractors can receive training to deliver works and services in an efficient manner and work in partnership with local government and their clients. Residents may require complementary support to organize and participate, and to receive and pay for services from the private sector which in the past were delivered, and often subsidized, by local government. The range of different interests and changing roles means that it is important that rights and responsibilities are negotiated and formally agreed to avoid conflict. This facilitates the development of constructive partnerships with a clear, goal-oriented division of tasks between partners.

Furthermore, where appropriate in the case of upgrading programmes, communities may be directly contracted to carry out the work (community contracting). The combination of community contracts with labour-based approaches presents many advantages in terms of community empowerment, job creation and income generation, as well as capacity building and partnership development. The approach develops local abilities that can be applied in the future to similar schemes elsewhere but also in the upgrading and maintenance of created assets through the own-efforts of communities.

The adoption of local resource-based approaches to public works contracting is best supported through prior awareness rising around costs and benefits and through comprehensive training.

Training of municipal staff and contractors embarking on such programmes is essential and the ILO has produced a wealth of training manuals in areas such as labour-based or local resource-based technologies, community participation/contracting, capacity building for contracting, decent working conditions, infrastructure maintenance etc. The South African government having adopted a policy promoting labour-intensive public works (see Box 2.4 above), the Construction Industry Development Board of that country has produced a wide range of training materials, available on the internet, to help local authorities adopt labour-intensive methods when appropriate and practicable in their public works programmes.

Employment impact assessments are useful to provide data on the financial and socio-economic advantages of employment-intensive approaches in infrastructure investments.

ILO's Employment-Intensive Investment Programme (EIIP) has over the years undertaken four broad categories of employment-impact assessments.

The first category uses micro-level project data to compare labour-based and equipment-based methods for infrastructure construction. Obviously, this comparison applies only in situations where labour-based technologies can provide infrastructure of comparative quality and technical standards and within a comparative time frame.

Studies in several countries and several infrastructure sectors show that Employment-Intensive Investments in infrastructure:

- Is 10-30% less costly in financial terms than equipment-intensive techniques; i.e. deliver more infrastructures for the same investment, without compromising on quality.
- Reduce foreign exchange requirements by 50-60%.
- Create 2-5 times as much employment for the same level of investment. Hence, permit the employment of more people, from the unskilled to graduates.
- Create an indirect income multiplier effect, which is generally estimated at between 1.5 and 2.8 for low income countries.

Such studies are first and foremost useful – for national and local authorities – in identifying and quantifying trade-offs between alternative technologies so that policy makers can take informed decisions.

A second category of studies analyses the employment impact of infrastructure components of certain sectors of a government's public investment programme or budget. The objective behind such studies, in addition to providing an overview of the current employment yield of a country's investment programme, is to identify lost opportunities for employment creation. Such studies can be used to set in motion a process of reallocation of public investment resources in favour of labour-intensive sectors.

A third category uses the field data obtained from micro studies to simulate the potential macro-economic impacts of a shift towards employment-intensive technologies within the public infrastructure investment budget on a variety of macro-economic variables such as employment creation, GNP, household income and consumption, private investment, public deficit, investment spending, fiscal earnings, balance of payments and multiplier effects (Miller et al, 2010).⁶

The fourth category of impact studies on which the ILO is currently working in a number of countries are input-output tables as well as static and dynamic social accounting matrices (DySAM). These are more elaborate tools which require a certain level of resources, technical competence and detailed statistical data; it may therefore not be within the means of smaller and poorer cities. The tool indicates, in the first place in money terms, how resources invested in one sector are distributed to all other productive sectors and actors within an economy (government, households, enterprises) thus showing the forward and backward linkages throughout the economy (the economic region concerned can be a commercial area, a town, a province or a country). For instance, it will show how much of a particular investment will go to construction, purchasing machines and materials, labour compensation and later on to consumption and tax revenues. The range of sectors may be disaggregated as needed. Input-output tables can be "extended into 'Social Accounting Matrices' (SAMs), which focus not only on production but also on social transfers between the institutions, namely enterprises, households and governments. Although input-output analysis and SAMs work with monetary data, the employment dimension (real data) can be integrated via 'satellite accounts'. Classifications such as gender, age groups, formal/informal labour and households in different income brackets can be included as long as relevant household and labour force survey data are available. SAMs are helpful to analyze the effectiveness

⁶ For an overview of such studies in different countries, see for instance Rizwanul Islam and Jean Majeres, "Employment-intensive Growth for Poverty Reduction: What can Labour-based Technology in Infrastructure Contribute?", Work 2001: International Conference on Employment Creation in Development, Witwatersrand University, Johannesburg, South Africa, 2-5 April 2001.

of past programmes and may be used to simulate the impact, in particular on employment of future programmes thus facilitating policy choice.

It is important for local governments to make informed decisions on the technologies and methodologies used in the infrastructure investments under their control, and employment impact studies provide such information.

Associations of local government may also advocate and influence for more employment creation in the infrastructure investments which are planned and designed at the national level but implemented at the local levels (such as national programmes on roads, schools, water management etc.).



Madagascar: Paving of a 533 meter long road in Ambohitafy (Antananarivo province). Photo: Marc van Imschoot

2.3 Influencing Business Activity and Provision of Labour Market Information Services

The potential and limits of Inward Investment

Quite broadly, some local governments place their major hopes of local job creation on attracting enterprises from outside – and particularly foreign direct investments (FDI), sometimes connected with export processing zones (EPZs) – to settle in the locality. This is based on the idea that local production for export throughout the country or even globally is the motor of local development. While success stories do exist, competition for foreign and national inward investment is harsh and the linkages of these industries to the local economy are usually limited or non-existent with the enterprises weakly rooted locally. Sometimes working conditions are poor and labour rights not respected. In addition, such inward investments are often volatile, and when they close, this can leave serious pockets of unemployment, as became apparent in Mexico earlier this decade, or in Marikina city in the Philippines which lost a flourishing footwear industry to Chinese competition (see box 3.1 below)

Many municipalities put substantial effort into trying to attract foreign direct investment (FDI), in particular by creating export processing zones (EPZs), as the way to create local jobs. To be successful in employment generation, this strategy has to find ways to enhance the creation of forward and backward linkages and thus to tie foreign enterprises into the locality. However, this should not be the only or even main route to local employment generation.

Investment of national companies, particularly if they not only provide employment but also serve local needs and so have greater local commitment are a more attractive proposition and local governments might focus their attention more in this direction. Nevertheless, modern manufacturing in the formal sector today, whether multi-national or national investments, tend to employ few workers for a very large output so that little of the economic benefit stays local.

Local authorities should therefore focus on the promotion of linkages with the local economy as has been the case, for instance, in Costa Rica. Forward linkages include logistics, packaging, cleaning and security services, but backward linkages such as the supply of intermediary goods required for the production should also be encouraged. This creates an employment multiplier effect in the local area and contributes to root manufacturing activities locally and hence reducing the volatility of this form of investment. These enterprises should also be required to contribute to housing their workers and the provision of local infrastructure. A close cooperation between local communities and these enterprises should also be developed to provide skills development of workers that can enhance local development.

Box 2.5: Offshoring and Employment – The Case of Costa Rica

Costa Rica was one of the first Latin America Countries to enter into the assembly of apparel for export into the US market. Starting in the early 1990s and accelerating with the arrival of Intel in the country in 1997, Costa Rica also began assembling high tech products like semiconductors and medical equipment. The country soon became a good example of the benefits of targeted policy of foreign direct investment as an illustration of the benefits of investing in health and education.

Costa Rica had been – and continues to be – affected by the global inexorable decline in manufacturing employment and the inward investment was seen as contributing to combat this trend. In the early phase, both productivity and employment rose but with the move into high tech industries, whilst productivity rose dramatically, employment generation did not keep pace. High skilled jobs proliferated and those working in the sector increased their wages to well-above the average. However, whilst some linkages have arisen, the impacts on local enterprises have been relatively disappointing with little impact on the traditional sectors and on those amongst the population lacking adequate education and skills. Nevertheless, in the wake of offshore manufacturing has come offshore services and whilst there are few direct linkages to the manufacturing sector it appears that modernization as a consequence of the growth of offshore manufacturing has contributed to the attraction of these offshore services.

Ernst et al, 2008

Labour Market Information Services

Traditionally, offices are established at the local level to assist locally-established businesses to find employees and to help those looking for work to find jobs (job centres). National labour ministries have organized this in the past but this is, with decentralization, increasingly becoming a municipal service. Even when these remain financed by national ministries, local governments may want to take steps to ensure that such labour exchanges or placement services operate effectively. This means that it is important for local governments to be aware of movements in terms of formal businesses entering and located in the municipality, their needs in terms of qualified workers and, on the other side, the skills and needs of those looking for work, proactively making the necessary connections. Gaining a better understanding of the labour market ideally

requires regular surveys amongst employers and workers, on indicators such as employment by industry, unemployment rate (including for youth and women), educational levels, informal sector employment, wages and earnings etc.

Such 'job centres' should be able to advise those looking for work on the kinds of activities which are being sought by local enterprises and assist them where possible also to access training that will qualify them for the kinds of work available. Where there are gaps in the locality where the kind of training needed is absent, local authorities should consider ways to fill the gaps and if necessary finance the training themselves in conjunction with local training and education institutions. For instance, Marikina city initiated training for employment in call centres, to increase the chances of job seekers to find a job in a call centre, at the same creating a pool of skilled labour thus making the city more attractive for the establishment of such call centres. A widely used tool to increase the likelihood both of local job seekers finding work and local enterprises finding the employees they need is the organization of 'job fairs' which might take place on an annual cycle.

Encouraging Entrepreneurship

Business growth and employment creation in the informal economy are determined by many issues including land and property issues, the availability of reliable power supply, crime and insecurity, corruption, the existence of a trustworthy legal system and jurisdiction, business regulations, HIV/AIDS on the work floor, working conditions, etc. Although not all of these aspects fall under direct responsibility or influence of local government structures, decentralized line ministries and municipal government do play an important role in creating and maintaining an enabling business environment. (Van Empel, 2008)

The relative weakness of urban economies and with this the lack of employment is seen to a significant extent as being the consequence of a lack of enterprise culture and the lack of skills in organising enterprise and in developing and marketing products. Substantial effort is currently being offered by external development agencies to develop capacities and foster the growth of 'business development services'. There has also been a similar focus on assisting development of the local private sector in transition countries following the abandonment of central planning in these countries.

Some 40 international development banks, UN and bilateral agencies and other interests have come together to form the *Donor Committee for Small Enterprise Development (DCED)* to coordinate efforts to foster enterprise culture and assist in developing small enterprises in the cities of the South and transition countries. Their guidelines are the basis for numbers of activities which are being financed by these agencies but also by national governments that are resulting in a large number of initiatives at the city level.

The international development agencies have put considerable effort into helping national and local governments to foster entrepreneurship and creating business-friendly local environments.

A general concern is to develop attitudes and capacities through training and given the severity of the employment crisis amongst youth and school leavers it is seen as important to start this process already in schools and other training institutions. However, local authorities are also seen to need to orient themselves to facilitating entrepreneurial activity. Generally local authorities see their role in local economic development and employment generation as encouraging investment by foreign or national formal enterprises and then taxing and regulating the activity of businesses both to gain an

income for the local authority and to ensure that the enterprises conform to planning and building regulations, health regulations and so on.

Some local authorities have a negative attitude towards the informal economy that is seen as obstructing highways, undertaking polluting activities and generally a 'nuisance'. This attitude is changing in some places and it is seen to be a necessary step with two aspects. On the one hand, the regulatory framework is seen as being too difficult and too expensive for many small and micro-enterprises to negotiate so that they stay in the informal economy. It is thus necessary to simplify down the process of business registration, bringing all the permissions under one process – a 'one-stop-shop' - that is inexpensive and taking place in a matter of days rather than months. Box 2.6 describes how this is being achieved in the Philippines.

Box 2.6: Streamlining Business Permits and Licensing Procedures in Ormoc City , Philippines

A process of reform of the business licensing system in Ormoc City in the Philippines was negotiated over an 18 month period by the Department of Trade, through its Small and Medium Enterprise Development for Sustainable Employment Programme (SMEDSEP) supported by German cooperation (GTZ). This resulted in the number of business registration requirements being reduced from 17 to 5 and the length of time taken to obtain a license being reduced from 17 days to 2. Although absolute numbers of new registrations were modest, nevertheless a 25% increase was recorded in the following year. As a result the LGU-Ormoc realized an increase in tax revenues of 56 percent from new businesses and 85 percent from renewed businesses, which was used on social services to reduce poverty in the City. This then became a model progressively applied across other Local Government Units in the country.

<http://www.businessenvironment.org/dyn/be/docs/132/AsiaAwardAnnouncement.pdf>

On the other hand, if local authorities realize that the informal economy undertakes many activities that are, even if in a low-key way, important assets to the local economy then they can be of substantial assistance in upgrading activities through negotiation with appropriate organizations of workers in the informal economy and the provision of appropriate infrastructure and services to assist them in improving the quality of their contribution to the local economy, also targeting the needs of women. Box 2.9 describes how the city of Durban developed a policy to assist those working in the informal economy.

Box 2.7: Durban, South Africa – Support for the Informal Economy

The end of the 1990s saw severe contraction of a number of industries in Durban, South Africa and with it the growth both of registered unemployment and also the informal economy. Recognising that this would be a situation lasting some years, the municipality focused attention on alleviating the situation of those in the informal economy and, following participatory workshops with representatives of the informal economy, adopted the Informal Economic Policy in 2000. This was both unique to South Africa and a global pioneer in terms of comprehensiveness. Among the benefits flowing from the policy, informal traders undertook to respect the policy in exchange for provision of infrastructure including in city centre locations. The policy and its implementation have led generally to a wider understanding of the economic importance of informal activities in relation to the economy as a whole and in providing vital employment and livelihood support – if as yet insufficient.

Robbins et al, 2009

Business Development Services (BDS)

An important route to helping local entrepreneurs to start and improve businesses is the provision of Business Development Services. These should be encouraged by all urban municipalities – but should also focus on the creation of cooperatives and the needs of those who will continue to work in the informal economy.

BDS comprise a collection of tools to help enterprises get started, perform better and grow. BDS include information, training, business advice, consulting and marketing services, assistance with information and communications technology (ICT), technical assistance, and business links. These services have also initially been provided by, or with the help of, national ministries, working with local governments and in fact the main driver has been in many cases international and bilateral development agencies and organizations.

Business development services are offered by ‘providers’ who have the resources to organize training and advice relevant to the needs of small businesses. Whilst in the past BDS providers were overwhelmingly paid by governments, the DCED is encouraging the services to be offered by private providers and in many countries there are now private BDS providers that supply training and advice on a fee-paying or commission basis. Ministries of Labour - and sometimes local authorities - nevertheless support these activities sometimes by providing free premises, linked to job centres, as well as subsidies to would-be entrepreneurs who would otherwise not be able to afford the service.

Box 2.8: Business Development Services in Bulgaria

Following the collapse of Communism in Eastern Europe, substantial assistance flowed into these countries from international and bilateral development agencies to effect conversion to market economies. Bulgaria is a typical case. A major component of this external assistance has been to help establish business services in all cities and towns and this was accomplished by establishing business centres with external assistance and coordinated by the central government. There has been a particular focus on assistance to the poorer sections of the community and particularly the Roma.

These centres have acted as job placement centres but their central role has been to develop an entrepreneurial culture and to provide the full set of business services including training in the development of business plans and the logistics of running a business, vocational training and the provision of incubators and leasing of equipment. The centres were established from the outset as non-government organisations with a local board constituted to oversee activities. The local authorities have been involved both as key members of the board and providing premises for the centres. As the international development agency support comes to an end, it will be necessary to find funds to cover the activities of the centres. There is a fear that if they are to be self-financing that the focus on assisting the poor will necessarily diminish.

For further information, see <http://www.undp.bg/projects.php?id=945>

A further important service necessary to launch and develop small and micro-enterprises is the availability of capital. Until the recent past, this posed a major problem as regular banks were uninterested in provision of small loans due to their low-profitability and/or scepticism of the capacity of micro-enterprises to service loans and that these would be likely to default. Over the past decade, however, with non-government organizations providing small loans and developing means, often involving community self-monitoring, to secure high levels of repayment (famously initiated by the Grameen Bank in Bangladesh), this has resulted in the widespread proliferation of micro-finance institutions and in some countries regular banks also now are geared up to service

this need. Local authorities and local BDS providers should be aware of what is available in their area and to ensure that new small and micro-enterprises are informed of what is available.

It should be added that whilst BDS services are now offered in a large number of cities, there is as yet little evaluation, in the case of developing and transition countries, of the effectiveness in terms of launching businesses that survive for any length of time. Also, as yet the numbers of businesses supported by these services are generally relatively modest and depend on the pro-active approach of would-be entrepreneurs and successful small industries to be prepared to enter the risky environment of business particularly in the current global economic climate.

What is clearly very weak or altogether missing is a framework to help determine what small enterprises might do by way of production of goods and services that are more likely to find receptive markets and hence to survive. If entrepreneurs are ambitious to serve national or international markets then this is inherently risky, particularly in the fast-moving world of globalized production (but returns can be high in case of success). However, if would-be entrepreneurs orient their production or services to local need and local markets, particularly where these are part of a broader local economic planning framework discussed in the following Chapter, then the risks can be considerably reduced and survival rates of small businesses can be expected to be substantially greater.

More recently, local enterprise development projects have successfully used a so-called systemic or value chain approach to enterprise development. This approach is based on an understanding of market systems to address the underlying causes of market weaknesses, rather than addressing the symptoms of such weaknesses. The value chain approach favours facilitation over the direct service/solution provision to enterprises. Market weaknesses can be caused by poor coordination of market players and their limited information and knowledge, the limited capacity of the private sector to identify constraints and advocate for reforms, poor relationships between public and private sectors, awareness and attitude of banks to local enterprise, etc. Furthermore, the approach promotes BDS and business environment reforms within specific markets.⁷

⁷ For more information, see for instance *From BDS to Making Markets Work for the Poor* by Alexandra O. Miehlebradt and Mary McVay (Editor Jim Tanburn), ILO, 2005; as well as many useful links on <http://www.bdsknowledge.org/dyn/bds/docs/detail/474/6>

Further reading:

The “**Value Chain Development for Decent Work**” guide (ILO, 2009) has been prepared for use in facilitating and promoting growth in priority sectors already agreed in Decent Work Country Programmes that are based on national priorities owned and led by the constituents (Government and its social partners Employers/Business and Workers). Decent Work Country Programmes are part of national development frameworks focusing on national priorities; they are not ILO programmes. The Guide can thus be tailored to specific situations and used by both public and private sector entrepreneurs to facilitate and promote broad based growth in selected sectors. The guide provides a systemic perspective, addressing not only value chain issues in the narrow sense but also important framework conditions, such as the relevance of the duration and cost of customs clearance, tariffs etc. Likewise, it addresses all relevant aspects that donors and other value chain facilitators need to take into account, including the need for institutional reform and its underlying incentive systems; issues of sustainability; the need to upscale project experiences; gender issues; etc.

Cooperatives

BDS are generally oriented towards individual entrepreneurs. Cooperatives are also businesses but member-owned. They aggregate the market power of people who on their own could achieve little or nothing, and in so doing they provide ways out of poverty and powerlessness. A cooperative is defined as an “*autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise*”. In fact there are many individuals who do cooperate in the informal economy to better coordinate complementary capabilities and skills and also to pool physical resources. Local governments that are supporting BDS providers can also stimulate the launching of business services specifically focusing on the needs of groups who wish to form a cooperative and the training and advice that they are in need of to make their cooperative a success. See also box 3.6 on Solidarity Economics in the City of Osasco, Brazil.

There are also examples of some very effective NGOs that have been helping informal workers to form cooperatives and local authorities should welcome these when they appear.

Box 3.1: Waste-Pickers' Cooperatives

In many developing countries, southern cities waste recycling is almost always an informal activity, referred to negatively as ‘scavenging’ or ‘waste picking’, but providing work for many millions and doing a significant urban environmental service in resource recovery. Recyclers are outcasts almost everywhere, ignored or abused by the waste authorities as a nuisance.

In recent years, however, they have become increasingly organised and the cooperatives and national associations into which they have organised themselves – particularly in Brazil and Colombia – have enabled them to gain recognition by the authorities, improve their conditions and organise their work on a more efficient basis, even bidding for contracts in privatised municipal waste management systems.

In Brazil this recognition has gone all the way to the President. In Colombia, in March 2008, recyclers organised the first world congress of informal recyclers. In Brazil there are around 500 recycling cooperatives employing 600,000 workers. Until recently, many of the workers were children. However, a current campaign aims at sending the children to school – which the more organised recyclers can now afford.

For more information see:

http://www.ppiaf.org/documents/gridlines/44informal_recycling_sectors.pdf

Social Enterprise

There is increasing discussion everywhere on the role that enterprises can play in the area of social services with successful examples appearing in many cities. Interpreted broadly, this covers activities ranging from ‘informal’ social insurance schemes, through providing for the needs of the elderly and the sick or the need of working mothers for crèches to extra-institutional education and thence cultural activities. In many cities these are services that are needed, particularly amongst low income groups, but generally neglected and underprovided. As further discussed in the following Chapter, municipalities need to consider how entrepreneurship in this sector – including local community self-provision – might be stimulated and supported.

Chapter 3: A Holistic Urban Employment Strategy

In addition to the employment-generating activities at the urban level described in the foregoing Chapter, a wide range of other initiatives and experiments are being undertaken – some of which are illustrated in boxes in this Chapter – but overwhelmingly these remain fragmented and as yet are being undertaken in very few municipalities. This Chapter aims to bring these together to present a systematic and coherent path which local authorities together with other local actors – and with possibilities of central government and international support - can follow to create job opportunities in the context of a coordinated urban and sub-regional development strategy. The sections set out below can be seen as a series of steps which may be undertaken in sequence but which might also be taken simultaneously or in a different order. The point, however, is that all the steps are necessary components of a coherent strategy and that the initiatives discussed in the foregoing Chapter need, as we describe below, to be integrated into this coherent approach.

3.1 Social Dialogue and Participatory Planning to Generate Productive Employment and Decent Work

A coherent move of municipalities to increase local employment could start by bringing together relevant local interests and organizations to carry the initiative.

Whilst local authorities might lead the process outlined here, it is necessary from the outset to stress that there be widespread understanding and commitment by the whole citizenry of the urban sub-region and that responsibilities for activities be assumed proactively by actors besides the local government. Therefore, the first step in bringing the strategy to life would be raising the awareness of the citizenry concerning the aims and ambitions of the process as a whole.

The urban reality calls for a social dialogue form that differs from the national or enterprise level bi-partite and tri-partite social dialogue structures. Three main elements differentiate urban social dialogue from the more regular forms of social dialogue.⁸

First, a broad-based involvement is typical for urban social dialogue. Depending on the specific context, dialogue partners can include municipal authorities, decentralized line ministries, local branches of trade unions, chambers of commerce, small business associations, cooperatives, business service providers, micro-finance organizations, vocational training institutions, community and religious leaders, NGOs, universities/research centres, etc. In this respect, special attention should be paid to groups that risk to be excluded from consultation processes because they are not well organized or because of other socio-cultural reasons – such as informal economy workers, women, youth, disabled persons, migrants, ethnic or religious groups, and home workers. Care should be taken that the dialogue does not institutionalize or sustain unequal power relations.

Second, the dialogue topics are of a distinctive nature. Usually they concern urban development issues that impact on the employment situation. For example, the lack of productive and economic infrastructure and services (e.g. a market, a business incubator, ICT, financial services, etc.) can be a source for dialogue. Such topics typically require a transversal, cross-sectoral involvement, especially when one wants to address the employment aspects.

The third distinctive feature of urban social dialogue concerns its pragmatic orientation whereas social dialogue at the national level is mainly policy oriented. In some cases, it is the practical nature that facilitates public–private partnerships among the dialogue partners for the actual implementation of the dialogue outcomes.

Private sector organizations are important urban dialogue partners. Private sector representatives can provide information on labour demand, obstacles in the business environment, and in the end become implementing partners of the dialogue outcomes. For example, in Sri Lanka, Micro and Small Enterprise (MSE) Forums have been created as public–private dialogue bodies that address in particular constraints in the business policy and regulatory framework.

Civil society organizations bring a variety of information and interests at the dialogue table that otherwise may be overlooked. Examples include: gender equity, environmental protection, health issues and other community matters. Also, they can become key implementing partners.

The overall goal of the process is to promote consensus building and democratic involvement amongst these actors. Successful social dialogue structures and processes have the potential to resolve economic and social issues, encourage good governance, advance social and industrial peace and stability, generate innovation and boost economic progress.

⁸ This section draws heavily on Van Empel, 2008.

Box 3.1: Social Dialogue in the City of Marikina, the Philippines

In the 1960s, Marikina was the envy of the emerging metropolitan Manila because it was host to big industries that came to locate in an Export Processing Zone. However, in the 1970s, it lost its special status due to changes in national policy and during the 1980s, suffered from the harsh competition from Chinese industry. In addition, the city was plagued by floods and stories on crimes and grime. The negative image was compounded by the chaotic system of industrial relations, when Marikina became a centre for militant unionism in the country, with the 'class war' even becoming 'physical' for some management and union officials. As a result, a large number of business and industrial establishments either closed down or relocated elsewhere. Thus, by the early 1990s, nobody wanted to invest in Marikina.

Two subsequent mayors did a lot in transforming the City's image, by initiating reforms in the social and physical infrastructures of the city such as the rehabilitation of the Marikina River, instilling civic discipline among the residents, cleaning up the city and improving the overall system of local governance. These City Executives also succeeded in establishing industrial peace and a favourable labour and business climate through social dialogue whereby the social partners were able to settle labour disputes at the tripartite or company level. Dialogue has been a major factor in the enactment of labour- and business friendly ordinances such as the creation of a one-stop-shop business registration. Dialogue was crucial in inculcating respect and trust between and among the tripartite social partners.

Source: van Empel, 2008

In some cities related participatory planning processes are already under way, such as participatory budgeting or a City Development Strategy and as a 'new' initiative, the employment strategy should acknowledge and where relevant be coordinated directly with or incorporated into these through the expansion of their focus and remit. An asset mapping approach can identify stakeholders with potential ideas, talent, technological competence and finance who will ultimately enrich the planning process and its implementation.

First, stakeholders should be brought together to create and agree on a vision of what the strategy is supposed to achieve locally. Following, the vision needs to be defined in terms of clear and measurable objectives, which will include numbers of jobs to be created, and given perspective as to achievability and challenges, often undertaken as a SWOT analysis (though other methodologies are also available) that examines the strengths and weaknesses, the opportunities and threats to the achievement of the vision.

Producing this should already involve a wide range of actors and in larger cities can be undertaken in stages involving first local communities and then coming together in a city-wide event. The main aim of this exercise is to raise awareness throughout the city of the nature of the process which is about to unfold. Clearly the local media need to be strongly involved in this activity aiming to disseminate the results widely.

3.2 Employment Impact Assessments

No coherent planning for employment generation can proceed without an adequate understanding and information base on the local economy, employment, available skills and consumption patterns and needs.

Past municipal efforts to generate local employment almost everywhere have been undertaken on the basis of very little information to assess what is likely to be more or less effective. Information required for planning for employment generation includes the structure of current economic activity – both in the formal and informal sectors – and skills locally available, whether currently in employment or not. Information on

consumption patterns and deficiencies amongst the poor with respect to basic needs that are not being satisfied – resulting from a ‘quality of life assessment’ as outlined in Box 3.2 below - is also essential in the strategy outlined here.

Sources of information may come from centrally-collected statistic and in some cases local authorities also already regularly collect some relevant data. However, in almost all cases available information is insufficient and it becomes necessary to devise appropriate means to obtaining data which may include business, labour market and household surveys. Methods for gathering the data should also involve group surveys such as ‘participatory issue analysis’ and ‘lifestyle focus groups’ where groups of citizens are brought together to discuss their problems and potential solutions and in the process reveal a wide set of opinions and the extent of local knowledge relevant to employment needs and potential generators.

However, resources should not be expended on information collection without there first being clarity about the technical resources available for processing and using the data and what is needed by way of information to realize the planning process outlined below. Which institution or institutions will conduct the information gathering exercise, where it will be processed and how it is fed into the planning exercise are also important early questions to be answered. Universities or colleges and, where there exist, arms-length ‘urban observatories’ and planning institutions should also be involved. The whole process should be coordinated by the local government.

Box 3.2: Medellín Quality of Life Index

In 2001 the city of Medellín in Colombia created a quality of life (QoL) index to assess exclusion and poverty in the city and, since 2004, has monitored this index on an annual basis. The data for the QoL index, collected through a survey of 20,000 households, are used to measure the geographical distribution of poverty and identify areas where policies to combat social exclusion should be targeted.

Out of more than 50 indicators used to measure the quality of housing, access to public services and social security, asset endowment of households, and level of schooling of adults and children in the household, 17 indicators were selected as the base for the QoL index. The composite indicator was calculated using principle component analysis. The resulting index value ranges from 0 to 100 (with the lower scores indicating a lower quality of life). The main advantage of using a QoL index is the ability to account for the many factors that define poverty in one indicator, going beyond the usual reduction of measures of poverty to income. The role played by un- and underemployment – seen in the Medellín QoL index as important variables - should become evident through such an approach not just as a reason for lack of income but also loss of status and lack of satisfaction of psychological needs.

Source: Cites Alliance, 2007

In deciding on a particular development path and what sectors to encourage, insofar as employment generation is of central concern, it is necessary at the outset to estimate the wider employment generating effects of particular interventions. On the one hand, proactive local governments with the capacity to process in-depth information on local economic activity can make direct use of the output of the surveys suggested above to make strategic assessments of sectors and value chains with high employment potential. In carrying out analysis and providing key data on growth perspective, the size and actors involved in particular value chains, the business linkages that exist and the “foundation services” that are already underpinning specific economic segments of the urban economy (for example transport and logistical services, or accounting and auditing), local governments can help (potential) local and external investors make better decisions. On the other hand, employment impact assessments of a government’s public investment programme or budget, highlighting the employment potential in specific sectors, such as in the infrastructure sector, can be useful to provide data on the financial and socio-economic advantages of employment-intensive approaches in infrastructure investments. Certainly with the establishment of a more robust, participatory local economic development and employment focus, this kind of analysis and impact assessment tools should become an integral part of all investment analysis and local development activities.

3.3 A Comprehensive Approach to Generating Employment

A comprehensive approach to local employment generation would integrate employment concerns in all sectors of the local production and service economies and seek to develop complementary linkages and economic multipliers for more development.

Efforts to start or strengthen a local economic development process should integrate employment concerns and maintain these permanently in focus. It should not be restricted to initiatives in the economic sphere that generate wealth (for some) but should also cover the human and social dimensions of development including the quantity and quality of jobs. Thus the analysis should look not only at enterprises and what is being – or could be – offered in terms of goods and services, but equally at human and social capital to address more directly the needs of the poor, including what skills are present locally that are un- or underused, and what skills are in demand and could be usefully developed through education and training (addressing a skills mismatch). It should be looking at further initiatives that might be undertaken in terms of forward and backward linkages to current activities and initiatives. Infrastructure investment that maximizes the use of local resources has a strong employment multiplier effect. It creates direct jobs for those directly involved. The local resource-based approach guarantees a high indirect employment effect through the increased use of local goods and services. As a result, local consumption and demand is stimulated from higher local incomes with a resulting induced effect for the local economy.

Five basic principles underlie initiatives that look more broadly at the possibilities of local and sub-regional job creation aiming towards a more proactive and comprehensive approach to employment generation as follows:

- Starting from local skills and the knowledge and experience of local businesses, efforts should go into building on these, creating ‘clusters’ that can synergize and interconnect into a broader capacity to increase market share in sectors where enterprises in the city already have a presence. This is already a well-established approach and should continue to be pursued but should not, however, result in the local economy becoming over-reliant on one or a few single sectors.

- Where the city or urban sub-region currently produces raw materials or semi-finished goods, exporting these to be manufactured elsewhere into finished products, enterprises should consider developing the capacity to use these raw materials or semi-finished goods to produce final goods locally either for export or for local consumption, substituting for imports and serving local needs;
- Based on information from surveys, assessments should be made of what, that is locally imported, could be locally produced to satisfy local need. Where there may currently be a lack of effective demand amongst low-income groups, such a strategy, with support from the local authority, would help to create the employment necessary to provide incomes with which to buy local products. More ambitious, but also an important component of an expanded employment strategy, is to start to 're-colonize' sub-sectors that were perhaps present in the local economy in the past but have since given way to imports. This means moving more dynamically into new production areas on an understanding of the need to be in control of the greater part of the production economy to satisfy local needs; Assess the overall labour outcome of planned public investments in terms of direct, indirect and induced employment, not only to assess their short-term effects, but also to assess the longer-term impact on growth and its distributional effects. As many infrastructure projects in low and medium-income countries are co-financed by IFI, these institutions should make all efforts to allow for larger labour content in infrastructure development which could lead to more job creation, greater ownership, and can rapidly boost local economies.
- In recent years, urbanization has been increasingly environmentally damaging. Waste accumulation and the abuse of the resource base (e.g. deforestation, water pollution) as widely practiced today are not sustainable and policies will have to be developed to manage these resources more carefully. This will generate 'green jobs' in both the public and private sectors and throughout the following parts of this Policy Paper, this should be borne in the minds of policy-makers as an important task for the future.

With these criteria in view, the complete spectrum of local economic and social activity should be examined to see where enterprises – or cooperatives or social enterprises – can be established to undertake profitable, income-earning activity, or local existing enterprises can be expanded to undertake new activities.

The Primary Sector

In the not too distant past, most of the materials needed to build and maintain towns and cities – including food, building materials and fuel - came from the surrounding sub-region. These were supplied to towns and cities in the sub-region where many of the household and other goods consumed in the sub-region were manufactured. Indeed in poorer urban regions even today the rural-urban linkages are still very important for the livelihood of cities. In the North and increasingly in the South these links have been falling away with national and global production chains resulting in a situation where even simple products come from the other end of the world – sometimes having been assembled from components made in a number of countries.

Urban and peri-urban agriculture has been growing everywhere as a means both to create local employment and to improve food security.

The recent emergence of urban and peri-urban agriculture – not only in Africa and Latin America but also in such unlikely cities as Osaka and St Petersburg - is indicating a significant return of food production to the vicinity of consumers – benefiting from reduced transport costs, peri-urban agriculture also provides jobs, income and food security to local producers. Box 3.3 describes the growth and impact of urban farming in Havana and latterly in Caracas.

Box 3.3: Urban Farming in Cuba and Venezuela

With the collapse of Communism in the Soviet Union, Cuba, that had hitherto received energy and other resources from the Soviet Union, was thrown back on its own resources. With shortage of agrochemicals, food production declined and the country was on the verge of famine initially contained through efficient distribution of what food there was. Experiments had already been made into intensive organic vegetable farming, including hydroponics, to satisfy urban food needs and the new situation drove this on to become a major mass movement. The Ministry of Agriculture led the process but finding appropriate land and rooftops to farm as well as development of local innovations was undertaken at the sub-municipal level by designated coordinators with crucial coordination by the local administrations. By 2005, 50% of Cuba's vegetables were being produced through urban and peri-urban organic farming and Havana even reached 90%.

Seeing on a visit to Havana the success of this, Venezuela's President Chavez introduced urban gardens into Caracas as part of his far-reaching programme of economic indigenization. By 2005 some 4,000 urban gardens had been established on vacant lots, in barracks and on peripheral land in and around the city. Subsidised by the government and with the operators organised into cooperatives, these gardens provide a significant amount of employment for the hitherto poor and unemployed, including unemployed youth in informal settlements.

Source: Feeding Ourselves: Organic Urban Gardens in Caracas, Venezuela - <http://towardfreedom.com/home/content/view/869/>

Building materials production – such as stone, bricks, timber, plaster and fibres - could also ‘come back home’ again if conscious steps are made with the collaboration of local architects and the building industry to specify these materials and define appropriate building regulations.

The building sector (including housing) and building materials industry have immense potential to create more employment, through the use of local materials, local technologies and local small-scale enterprises. For example, research in South Africa revealed that a masonry house may generate 3.5 times more employment than an equivalent precast concrete house (at approximately the same cost).⁹ The choice of technology not only influences employment parameters, it also determines who will benefit from this employment. Choosing appropriate technologies and (traditional) local building materials provide important employment opportunities to unskilled or semi-skilled people.

Small-scale, relatively labour-intensive building materials manufacturing technologies are generally associated with larger multiplier effects than large-scale, capital-intensive technologies because they tend to use locally manufactured tools and machinery and are marketed and transported by small-scale enterprises. The production in small units close to markets creates local employment while also reducing transport costs.

It is vital to develop new sources of energy from the urban sub-region to mitigate greenhouse gases and because fossil fuels will become increasingly scarce and expensive in the coming years.

The ‘spike’ in oil prices in mid-2008 was not a random event but was the harbinger of things to come in the following years: fossil fuels will become increasingly expensive

⁹ CIDB, 2004.

and unavailable. Furthermore the use of fossil fuels is the main contributor to climate change and so municipalities should be seeking to find alternative, renewable sources of energy. There is thus an urgent need for cities to cooperate with surrounding sub-regional authorities to seek and develop these resources. In some regions there is still significant untapped availability of hydropower from micro- and mini-hydro plants. Wind power may also be possible and wave and tidal power in coastal regions. Fuel from biomass, which in the past was - and still in some more remote urban sub-regions still is – the main source of energy should be revived. All of these can and should be developed in local resource-intensive ways bringing a significant amount of work back into the peri-urban hinterlands.

Manufacturing

Local manufacturing for local use has declined greatly everywhere but the potential to ‘re-colonize’ productive sectors is substantial – although this needs to be sheltered against unfair, highly-capitalized external competition.

Mechanization and automation has led in the world economy as a whole to an ever diminishing workforce in manufacturing. Furthermore, global restructuring of manufacturing is coming to concentrate this in a few – mainly Asian – countries. In many countries manufacturing employment has declined to less than 20% of jobs. The immense productiveness of these industries in an international free-trade regime means that markets in developing countries are flooded with a wealth of goods which, however, few can afford because they do not have an income as a consequence of lack of jobs!

Initiatives to create employment therefore need to consider how manufacturing can be ‘re-colonized’ by enterprises ‘moving up value chains’ and recovering skills. Whilst exporting produce from new enterprises should not be abandoned – and possibilities for producing for national and global markets should continue to be explored - the chief focus should be on identifying local needs and supplying goods to satisfy these. A natural place to start is in processing raw materials from the sub-region: food and building materials. But manufacture of furniture and other household goods and even textiles and leather, garments and shoes can also be recovered based on raw materials produced in the sub-region.

Labour-intensive production need not abandon machines but should aim to de-escalate the over-productivity of modern machines by introducing appropriate technologies which require more labour and allow for greater ‘people-centred’ control over the work process. Whilst these initiatives need to be developed in communication with communities with regard to needs and markets, it will at the same time be necessary to introduce tax concessions and/or subsidies and sheltering regimes to defend local initiatives against unfair advertising and competition from capital-intensive corporations and emphasising the advantages of producing and of ‘buying local’ including both sensitivity to local needs and tastes and the creation of local jobs.

The Service Sector

Too much employment in the informal economy, whilst being redistributive, serves little social purpose. There is, however, a need to improve environmental and socially useful services and municipalities should lead in encouraging these to develop.

The service sector has, in recent years, become the largest employing sector everywhere being clearly related to rapid urbanization with the workforce growing considerably faster than the demand for labour. However, it is not so obvious that at

present employment in much of the sector is of great social value (banking and real estate in rich cities and street trading in poor cities), although it is vital as an economic redistributive mechanisms. However, the informal service economy provides some income to many who cannot otherwise find gainful employment but also provides cheap, mainly personal, services – such as hair-cutting, sale of ready-made food and repairs – serving the poor affordably and benefiting also the better-off. Successful initiatives in the primary and manufacturing sectors could provide work for many currently in the less socially useful sub-sectors of the informal service economy and in the process make for a tighter labour market in the service sector that will help overcome underemployment via more demand per worker. At the same time this should induce rising prices and thus rising incomes, to help raise informal workers out of their poverty.

Environmental services which in the North are generally paid for and organized or contracted out by local government are, in the South in some sub-sectors, provided predominantly by the informal and semi-informal sectors. These include services vital to the functioning of cities, including waste recycling – in large southern cities employing hundreds of thousands in waste picking – and local transport. Improvement of these services is often urgently needed and in so far as local authorities take on this responsibility then this should as far as possible be include improvements to the organization of the services and improvement of working conditions amongst those already working in these sectors. Environmental services could also be extended to a more thorough consideration of environmental improvements as part of a general strategy in the currently widely discussed area of ‘green jobs’.

Further reading:

ILO/UNEP: *Green Jobs. Towards decent work in a sustainable, low-carbon world. Policy messages and main findings for decision makers*, This report focuses on green jobs in the following six economic sectors that are particularly important in terms of greenhouse gas emission and use of natural resources for raw material, as well as their contribution to the economy and as sources of employment and income: energy supply, in particular renewable energy, building and construction, transportation, basic industry, agriculture and forestry.

The interactive local development planning process should also explore what local services are currently underprovided. In developed countries the social services including health, education and child care but also community services and services in the arts, culture and entertainment, provide a notable proportion of overall of employment. These services are often under-provided in cities of developing countries. As a middle class emerges, these services will become more in demand and may need some help to take off, for instance through Business Development Services. In South Africa, a social sector component was included in Expanded Public Works Programme (EPWP), focusing on two areas: (1) Home/Community-Based care for people with HIV/Aids or TB (HCBC) and (2) Early Childhood Development (ECD) notably crèches. In the Community Work Programme (CWP), communities are tasked with identifying and prioritising ‘useful work’. The definition is broad; the work must create public goods or services, and/or improve the quality of life at local level. The work has to be at sufficient scale to absorb a target minimum of 1,000 per site, and it also has to have a labour intensity ratio of at least 65%. The CWP is also an employment safety net as it offers 2 days of regular work per week to those who need it in an ongoing programme at local level. (ILO, 2010)

3.4 Improving Productivity and Working Conditions in the Informal Economy

A long term vision can be developed to address the needs of those working in the informal economy with a view to progressively being incorporated into the formal economy.

It was noted earlier that few local authorities pay adequate attention to the local informal economy, the poor conditions which those working in the informal economy suffer and the fact that almost everywhere in the South this is where the majority of the workforce is forced to work largely as a consequence of the lack of formal employment. Local authorities need to have a two-pronged approach to addressing these problems. The first is to ensure that priority is given in developing the kinds of local economic initiatives outlined above that will improve conditions for those currently working in the informal economy and ideally contribute to formalising hitherto informal work – i.e. improving security and access of informal workers to diverse services from which they were previously excluded.

Secondly, even before formal work conditions can be generated for those working informally, the local government could develop a policy on the informal economy that maps out initiatives that can be taken for different categories of informal workers – focusing particularly on the most disadvantaged including women – that will alleviate their circumstances. Measures might include the adoption of a regulation concerning local government policy towards the informal economy and specific regulations relating to particular groups; provision of basic ‘life training’; steps that might be taken to facilitate the extension of social protection; the removal of barriers to formalization and access to services, finance and other benefits; encouragement of informal workers to form associations and for employers associations and local branches of trade unions to assist in this and to collaborate with them; proactive mechanisms to eliminate discrimination but also to assist families to find alternatives to child labour. Finally, local authorities should ensure that the interests of those working in the informal economy are adequately represented in the planning process outlined in the following section.

Improving the skills of informal economy workers is key to their ability to access gainful jobs, improve productivity and income. Yet, formal training systems have proven inadequate to reach out to and to meet the needs of informal economy workers. Community-based programmes and projects are partially filling this gap. The ILO has developed a specific methodology – Training for Local Economic Empowerment (TREE) – that is applied in several countries. The methodology emphasizes the identification of potential wage and self-employment opportunities and their training and non-training requirements before organizing and providing training and post-training support services to poor and/or disadvantaged individuals in communities. Such opportunities are assessed in the context of communal development plans and make use of both formal and non-formal training offerings that are available in the localities (ILO, 2007b).

3.5 Local Development Planning with Employment Generation at its Centre

Mechanisms for including employment concerns in local developments planning can be formal (appointment of a specific municipal secretary for development, work and inclusion in Osasco) or informal (dialogue fora, task force), or a combination of both, according to the situation. In most cases, the local government will play a coordinatory role but decision-making structures should include a wide range of actors who can then take on responsibility for various parts of strategy implementation.

An important initial decision where the local authority will play a crucial role is to decide on inter-municipal relations in the planning process. This will require a structured planning process and an appropriate institutional configuration to allocate responsibilities. Throughout this Note there is reference to the city and its sub-region and an early decision will need to be taken concerning how the surrounding municipalities will be included and indeed how far beyond the city boundaries the planning process should extend.

One way of defining the territory that is economically and socially determined by a city is the definition of its “Functional Urban Area”(FUA). Cities are expanding ever more, more and more residential settlements and industrial areas are being created in the fringe areas of cities, with many employed and unemployed commuting daily to the city centres, resulting in multiple direction travel-to-work flows. The FUA determines the increasingly interwoven and interactive functional region that encloses the core and the fringe areas.

Furthermore, there is likely to be some cooperation with more distant locations where there is insufficient demand for particular services in the urban sub-region in question – such as particular vocational training skills – and so there will need to be a distribution of services negotiated between possibly several cities.

The initial visioning and SWOT process should lead to the identification – or self-identification – of a range of organizations and institutions that need to come together with the remit to develop the strategy – and plans – in detail and to take these through to implementation of programmes and projects. These will include, besides appropriate sections of the local government – including from peri-urban jurisdictions - employers’ associations (chambers of commerce and industries and the banking sector), trade union representation, representation of associations of informal and home workers, academic and training institutions, relevant non-government organization particularly to represent disadvantaged and minority interests and so on.

The institutionalization of urban dialogue mechanisms in the policy environment contributes to its impact and sustainability. There are multiple ways of organizing and rooting dialogue in the local setting. They include informal dialogue fora that are driven by a dynamic, dialogue culture and formal dialogue fora that are attached to urban governance structures or formalized through agreements and institutional back up, like in the case of Marikina city (box 3.1 above) and Osasco (box 3.4 below). Besides, dialogue bodies can transform into implementing structures. This is the situation, for instance, of Local Economic Development Agencies (LEDAs), which are constituted by a broad-based public–private assembly. In Mozambique, the experience of the LEDAs resulted in incorporating them into a broader institutional set-up at the national level, recognizing LEDAs as essential instruments in implementing the national poverty reduction strategy. Also, some types of public–private partnerships are an example of an implementing arrangement of dialogue outcomes (van Empel, 2008).

These varying forms of sustained dialogue mechanisms have two aspects in common. First, they are all the result of a lengthy process of confidence building between and among the dialogue partners. Secondly, they have gained recognition of related decision-making structures such as Municipal Assemblies, Ministries at the central level or national tri-partite social dialogue bodies. The external recognition of the dialogue forum is influenced by, amongst others, the representation, legitimacy and technical capacities of the dialogue partners. For it to have legitimacy, it is imperative that the forum ensures adequate participation in strategic decisions of all key stakeholder groups.

Box 3.4. Inclusive economic restructuring: the case of Osasco, Brazil

Due to industrial restructuring, the city of Osasco lost some 20.000 industrial jobs during the 1990s, open unemployment increased from 11.6% in 1985 to 18.6% in 2004, and the share of formal employment in total employment decreased from 58.9% to 44.7% over the same period.

Since 2005, the local government of Osasco has developed a framework for promoting employment and decent work by creating and linking on the one hand policies and programmes aimed at income redistribution and emancipation focused on vulnerable families and unemployed workers, and local economic development on the other. The redistribution programme comprises initiatives in the fields of minimum income, conditional cash transfers, capacity building and socio-educational activities including a Pro-Youth programme. Components of the emancipation objective (the Osasco Solidarity Programme) included incubators for cooperatives or other community initiatives and entrepreneurs through capacity-building, micro-credit, marketing and networking. Pro-active local economic development policies led to initiatives in the fields of labour market intermediation, business development services, and information sharing on the main tendencies in the labour market (creation of a labour market observatory). Public Centres for Employment, Work and Income (Portal do Trabalhador) were created to provide „one stop“ services to the unemployed and self-employed in the informal economy, and „Digital Inclusion Centres“ providing computer literacy courses and access to information in low-income areas of the city.

However, the most important policy lesson from the Osasco experience is that the local government played a strategic role in networking and building alliances with a range of partner organizations in and outside local government. While the state and federal government were strategic partners in the redistributive and emancipatory programmes, a wide range of non-governmental actors – such as universities, training centres, labour unions, employers' associations, enterprises and banks – were crucial allies in the finance, design and execution of its local economic development programme. The appointment of a specific municipal secretary for development, work and inclusion was important to coordinate these policies and programmes, and to „lobby“ the other secretaries of local government to maximise the employment impacts of their policies and programmes. Furthermore, right from the initial stages institutional structures and a regulatory framework were created to reduce the vulnerability of programmes to changes in local political conditions. Thus, most of the programmes were embedded in a legal framework negotiated with, and approved by the municipal council.

Source: Klink, 2009.

Further reading:

The *Local Development and Decent Work Resource Kit* (ILO, 2006) aims to provide tools on how to promote LED through an integrated Decent Work approach. It provides additional value to conventional local economic development approaches by (1) explicitly incorporating the Decent Work perspective into local development agenda, and (2) integrating economic and social concerns and objectives. The Resource Kit is a collection of practical and easy to use tools that are designed to help and enable local planners, decision-makers and development practitioners to make decisions and implement actions with a view to promoting socio-economic development and employment. It deals with a wide range of topics concerning local economic growth, job creation and job preservation, improvement of the quality of jobs, making local development benefit the poor, ensuring equal opportunities for all, protection of rights, and promotion of voice, representation and social dialogue in local governance. The kit is based on local development knowledge and practices in the Philippines and other countries.

UN-Habitat's training manual in four Volumes *Promoting Local Economic Development through Strategic Planning* (2005), whilst focused on local economic development (LED) as a whole, is also very much concerned with the question of how to increase employment at the local level.

Cities Alliance *Understanding Your Local Economy: A resource Guide for Cities* (2007) addresses the challenges of analysing local economic conditions and a city's comparative and competitive advantages. The Guide presents practical approaches to conducting citywide and regionwide economic and competitive assessments. It includes advice on how to choose local economic development (LED) indicators and tools that can assess a local economy's competitiveness.

The incorporation of employment and decent work concerns into Local Economic Development strategies adds a new dimension to address the problems of poverty and social exclusion. It also facilitates the integration of social and economic issues and objectives into local and regional planning processes.

A time-table for strategy implementation will be necessary, defining outputs, who will produce these and logistics for carrying through decisions on the part of the various participants. Two kinds of plan will be necessary. Short-term action plans should be designed to demonstrate the efficacy of the planning process and to take opportunities dynamically when these arise. But there needs to be a long-term strategic plan that turns the vision and strategy into a more concrete framework for decision-making over the coming years to realize the many possibilities identified to develop or 're-colonize' areas of production and create employment-generating initiatives.

The local authority would in general be expected to facilitate the process of plan implementation that could include the provision of infrastructure such as serviced sites and 'business incubators' for favoured development sectors which might also be associated with technical training institutions. Tax breaks, subsidies and equipment leasing should also be available for enterprises supplying or producing in the framework of the plans. Effective communication should be established with BDS providers and consumer groups to participate in decisions on product development Box 3.5 describes how such connections between consumers and sub-regional production has been established in many cities in Japan. It is by connecting all parts of the system from plan through production to consumers that the (re)building of the local economy and revival of the possibility of full and productive employment and decent work for all may be achieved.

Planning for urban employment generation should involve consumers as well as producers in determining new initiatives to be supported by the planning institution.

Box 3.5: The Japanese Consumer Cooperative Movement

In the early 1960s, the Japanese consumer cooperative movement adopted a strategy of encouraging groups of about 10 households – with women playing the main role – to meet for group purchasing. Some of these groups - which are called 'hans' - organise self-education courses on consumer issues and are consulted by the cooperatives of which they are members on product development and quality. Some are moving into local social work in response to problems arising from a growing elderly population. Many groups – totalling millions of members – participate in the 'Teikei' system of purchasing fresh food from peri-urban organic agricultural cooperatives. Products available from the cooperatives cover most of everyday household goods.

3.6 Legislative and Regulatory Framework

The planning processes outlined in the foregoing paragraphs imply the need to further consider what legislation and regulation might be needed to facilitate the production and implementation of the kind of employment-generating strategy outlined here. The planning process could be steered by an Economic Development and Employment Forum (EDEF) or task force, that would benefit from local ordinances defining its legal structure and remit. Its main objectives would be to develop and sustain an employment-focused local development process by encouraging local production for local use and consumption, providing support to the development of procurement rules that generate more development, promote advertising of locally-produced products, and orienting the decision-making process towards local resource-based, employment-intensive investments and supporting structures in favour of local enterprises and the informal economy. It should also help to orient data collection on employment trends, and make sure resulting initiatives address the needs of the poor, and women and youth in particular.

Local ordinances and regulatory structures will need to be adopted by municipalities to implement the urban economic development and employment plan effectively.

In structuring this framework of facilitation, the issue of possible capture of the process by powerful local interests who take all the opportunities must be guarded against. Also corruption by staff of the regulatory agencies using new legislation and regulations as a means of exacting bribes needs to be recognized as a problem and the control and regulatory processes designed from the outset to be clear and transparent, even with permanent external scrutiny through local civil society organizations having a direct supervisory role.

3.7 Financing Employment-Creating Local Development Initiatives

In so far as local governments already have planning powers, these can, particularly in the context of decentralization of powers, incorporate at least aspects of the employment planning processes into their existing planning responsibilities – requiring more a change in internal planning skills rather than new financial resources.

Although the current financial crisis is affecting the ease with which finance for new initiatives can be found, there are many possibilities of creative local financing and also international support for well-planned and executed new initiatives.

However, other actors should provide finance for the components for which they become responsible. Furthermore, finance for the planning process may be created through a small levy on local businesses, as is sometimes undertaken for skills development and representing acknowledgement of the support they can expect to receive as the results of the new planning process come to fruition. Support from international development sources might also be expected as has already been forthcoming in numbers of regional initiatives towards local economic development (such as ECOLOC in West Africa and PRODERE in Central America).

As noted in section 2.3 above, sources of finance for small businesses have been proliferating in recent years particularly with the spread of micro-finance institutions. However, at the time of writing, the rapidly worsening economic crisis is resulting in many financing routes becoming more restricted. Nevertheless, there are many creative ways to financing new initiatives that include cooperative banking ranging from traditional savings and loan circles to credit unions that 'boot-strap' the creation of small and micro-enterprises that can be significant in the longer run if the businesses are in fact successful.

A further source of finance potentially available in most developing and transition countries that has as yet received too little attention is through harnessing remittances for development purposes. Remittances have become a significant – even substantial – contribution to the national product of many southern countries. Whilst in the past the assumption was that these are the private business of the senders and recipients, recently increasing interest has come to be placed on the potential investment of remittances in development projects. International agencies including the World Bank and IFAD are focusing on possibilities and migrants and diasporas are themselves clubbing together to generate pools of resources for community development back home. Some national governments are creating funds or issuing bonds aimed specifically at migrants for use in national development projects. Local authorities could equally consider where there are significant numbers of local people working overseas to create similar facilities to assist in financing local development.

3.8 Orientation, Education and Training in Support of Local Employment

The approach to development set out here will require considerable enlargement of the skills base of any city sub-region embarking on this path. Indeed, this is one of its advantages, that it values skills and it is to be hoped not only that the development of skills will be complemented by growing demand for them, it will also be personally fulfilling where people can feel they have a real contribution to make to local society.

Box 3.6: Solidarity Economics in Brazil

In response to a series of solidarity movements, the Brazilian Ministry of Employment and Work established a secretariat of 'solidarity economics' that aims to assist local governments to develop local economic initiatives based not on the profit motive but, rather, on principles of social justice and equity, cooperation, self-management, collective ownership of the means of production, decent work and social and environmental sustainability. By way of example, the response of the city of Osasco in Greater Sao Paulo created a Public Centre for Community and Solidarity Economics to raise consciousness and develop ideas and also a Public Incubator for Community and Cooperative Projects aimed at producing practical results.

Within a year of the start of the initiative, 27 community entrepreneurs and/or cooperatives had been processed by the incubators with moves to upscale the programme. The Federal University of Rio de Janeiro is contracted to assist and staff have been trained to run the facilities. Training manuals and reference materials have been generated for selected sectors including textiles (a traditional local industry), food processing, recycling and urban agriculture. The whole is seen as an essential social learning process in alternative local economic development.

Source: Klink, 2009.

Just as currently encouragement is being given to schools and colleges to teach entrepreneurship as a prelude to creating a job after graduation so, insofar as the strategy set out here is adopted, information on the strategy and how entrepreneurship fits into this should be added to the curriculum. As noted, BDS remains important to the strategy with, however, the addition of help to would-be entrepreneurs and ongoing businesses to orient themselves to productive and service activities that are more likely to be supported. These initiatives will need to cover product and business developing, packaging and marketing projects, linking ideas, talent, local assets, technology and finance.

Universities and other higher education institutions that in many developing countries have been focusing on globalization and issues in national economic development should be encouraged to adopt the new perspective. This would not lose sight of the global, in that this will continue to exercise an influence. But it should focus more attention on how the benefits of the global can be harnessed whilst overcoming the disbenefits and how structural changes can be made within the local and sub-regional economies to address local needs better.

Vocational training can be found in many cities in the South organized in a variety of forms ranging from internationally-supported national networks of training establishments through initiatives of local authorities to private institutions. It is clearly important that these provide both courses in skills generally required in broad branches of employment but that there be strong links with business to match skills with needs. Realization of the strategy brings an additional dimension to curriculum development of training colleges, orienting courses to skills training for economic sub-sectors favoured by the plans. Research and technology development in local resource-based management in alliance with local institutions and universities will also guarantee added local knowledge value and expertise¹⁰.

¹⁰ As an example, the ILO has collaborated with several universities and training centra to introduce labour-based technology into their under- and post-graduate civil engineering courses.

Labour-intensive methods and new initiatives in local manufacturing will need appropriate technologies which may already be on the market but may also need to be locally developed.

Furthermore, the need for technologies appropriate to developing the selected sub-sectors points to the need for some local educational or training institution (ideally a technical college) to take on the responsibility of exploring what is already available nationally or internationally that could be relevant and appropriate. If relevant machines and implements are already available these will need to be evaluated against requirements and if necessary locally produced in modified form. If no relevant technologies are available for particular needs, then the institution should be assisted as part of plan implementation to develop them.

Conclusion

Hopes of generating employment at the local level have generally involved two approaches. On the one hand local authorities have sought to attract FDI and other forms of investment originating from outside the municipality. Firms offering jobs under such investments tend to be small in number and precarious since governed by market forces not controlled locally. Today, with the spreading economic depression, the hopes of finding enterprises that are interested in making new investments are reduced.

The other main approach that has been taken to combat the incipient decline in formal employment on the part of the development agencies has been to help establish at the local level means to assist those with entrepreneurial ambitions to start new businesses or, in the case of small businesses already running, to assist them to grow. Although small businesses certainly are a substantial source of employment everywhere, the promotion of small businesses has not proved to be a particularly successful way to confront the long-term decline in employment.

In short, a new direction is urgently needed to combat the grave employment crisis. This requires a fundamental rethinking of the way in which local economies work and to find ways to reconstruct them with the generation of productive and decent employment as the main goal so that citizens can gain an income and experience the benefit of social integration and the psychological satisfaction of purposeful work. The strong connection between poverty and joblessness has been neglected for too long and a new approach to social and economic development with employment generation at its centre is urgently needed as the way out of poverty and towards the achievement of liveable cities.

What distinguishes the above strategic approach for generating urban employment from conventional approaches towards local economic development is that employment is an explicit rather than an indirect objective. This strategy goes beyond the conventional wisdom which says that given a good climate for doing business; the private sector will prosper and create jobs. This is a strategy to be implemented by municipalities as public policy agents. The strategy recognizes the importance of public policies not only in providing an enabling environment for the private sector, but furthermore in enhancing a number of areas where cities and urban local government units actually have a comparative advantage for job creation. These include the ability:

- to foster local-level alliances in favour of job creation, including participating in and setting the stage for urban social dialogue (bringing together the key actors concerned with the world of work at the local level);
- to shape the regulatory framework at the local level to foster job creation. Many local ordinances and regulations regarding zoning, bidding and tendering, business start-ups, street vending, recruitment, etc. are directly or indirectly shaped by local government units;
- to direct investment resources towards forms of infrastructure and social service development which favour local job creation;
- to experiment with new and innovative sectoral approaches to job creation, including green jobs, urban agriculture, sub-contracting urban services to community-based organizations and small businesses and micro-enterprises which were initiated in the informal economy;
- to harness the above areas in order to improve productivity and working conditions in the informal economy.

In addition to the above, there is new interest in direct job creation through public employment programmes and even employment guarantee programmes. Such programmes can be a key element of stimulus packages put in place as a result of financial crises, and municipalities can have a potential role to play in planning and implementing such programmes.¹¹

The menu of policy options presented in this strategy note, to be put into practice, should be integrated into the framework documents which have been adopted by municipal governments and other Cities Alliance partners, namely, City Development Strategies and Slum Upgrading Strategies. It is proposed that this Policy Paper be tested in some municipalities, and the actual impact of such CDS or SUS on job creation be evaluated once these strategy documents have been funded and implemented.

¹¹ For more information, see ILO-ITC Training Course on Public Employment Programmes; and www.economistsforfullemployment.org.

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