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

Research report

Adrian Atkinson

Employment
Intensive
Investment
Programme

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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 Research 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 as 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 Research Paper provides the background that was used to develop the Policy Paper.

Prior to the development of this Research Paper, the Cities Alliance and the ILO have collaborated in the field of urban employment through the organization of a roundtable discussion of donors and development partners on “The Future of Urban Employment,” hosted by the International Labour Office with the collaboration of the Department for International Development (DFID-UK), the Swedish International Development Cooperation Agency (SIDA), UN-Habitat and the World Bank; and in the Preparation of a Discussion Paper, “Cities without Jobs,” which was distributed to Cities Alliance Members at the Consultative Group Meeting in Manila in November 2007.

This Research 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. Three case studies provided descriptions of initiatives for job creation and improved working conditions in Brazil, the Philippines and in South Africa. Based on these case studies and further research into employment promotion in cities around the world, the ILO produced a Policy Paper published as a separate document, which 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.

The ILO has consulted with the following key partners in the development of this Research Paper:

United Cities and Local Government (UCLG), the international association of local governments;

UN-HABITAT, the UN agency responsible for assisting governments and other actors in the area of urban development and housing. It is mandated by the UN General Assembly to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all. Over the years it has produced a wealth of documentation, training materials and other resources useful for local governments.

The Cities Alliance (CA), a global coalition of cities and their development partners committed to scaling up successful approaches to urban poverty reduction. The Cities Alliance funded this Research Paper, a Policy Paper and the three case studies.

It is recommended that this Research Paper, along with the 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 the 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. These reports 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. They 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
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

Chapter One: Overview

1.1 Purpose of the Report

Some decades ago, the world entered an era of decline in the provision of adequate and decent employment.⁵ At the onset of the crisis in 2008, this has taken a turn for the worse; every month in the United States more than half a million more employees have been made redundant and in China, tens of millions have been released from their jobs. Unemployment levels are rising everywhere and at the time of writing, the bottom of the depression is not yet in sight.

Upon closer inspection, the drama of rising unemployment does not appear to show the full extent of the crisis. Over the past two decades, in most developing countries, growing unemployment has been masked by the fact that increasing numbers of people unable to find secure, productive and decent employment have been entering the ‘informal economy’ because they need to find some means of earning a living. Here, work is mostly poorly paid and conditions are insecure and often hazardous. In recent years, barely ten percent of job seekers in Africa and Latin America could expect to find work in the formal economy and even in those Asian countries that have been experiencing rapid economic growth, and have become the “workshop of the world,” this is far from generating full employment. Only few people wishing to earn a living through regular, decent employment are actually able to find it and the large majority must, in consequence, create their own means of earning an income.

In the countries of Eastern Europe and the Commonwealth of Independent States, unemployment and underemployment, and the complete exit of many from the labour market, are in widespread evidence; however, in all cases the economies had—prior to the current crisis—recovered from the catastrophic collapse following the end of the Soviet Union and the informal economy is less obvious than in developing countries. In the northern countries, the informal economies remain small. As there are more substantial social security arrangements, the pressure to find work to earn a living has not been so great. However, there has been a growing tendency for jobs to be short-term, part-time and temporary, indicating that here too, the increasing insecurity of employment and, in recent months, open unemployment, has been growing rapidly in many European countries.

Efforts by governments to generate employment have generally been of two kinds. Central governments are concerned on the one hand, to develop the national economy and on the other, through macroeconomic measures and assistance, to develop particular industries; the presumption has been that success will consequently generate a demand for labour. It is evident that even where these measures have been successful in promoting economic growth, increased employment has not necessarily followed, with the emergence of the phenomenon of ‘jobless growth’.

A number of additional tools have been developed to intervene in the labour market, in order to maintain and stimulate employment; these are discussed later in this Report. By no means, however, have these been applied consistently. At the local level a number of initiatives are being undertaken, which are aimed at employment generation in isolation and

⁵ For a detailed analysis of the employment crisis by region, see Ghose, Majid and Ernst (2008)

include measures to attract inward investment, education and specific vocational training, encouragement of small business development and other measures that do, however, remain fragmented and, being focused mainly on local economic development (LED), rarely possess a direct focus on employment generation as such.

This Report, focusing on the potential role of local government in employment generation, is written within the general remit of the International Labour Office (ILO). This follows from many initiatives in this field on the part of the ILO and especially the strategic framework provided by the Global Employment Agenda (ILO 2003). In the past, local governments, especially in developing countries, have had very limited responsibilities and resources with which to manage urban development and, so far, almost nowhere has it been seen as a substantial responsibility of local government to coordinate local economic development or, in particular, to be responsible for generating employment in their jurisdiction.

The global trend towards the decentralization of powers, responsibilities and resources to the municipal level is leading to local governments taking initiatives in areas that were not previously part of their remit. One of these includes a more coherent approach towards promoting local economic development. Again, there is usually an assumption that economic development will lead to increased employment. However, we cannot automatically assume such a link.

It is anomalous that many local authorities have increasingly seen growing unemployment and underemployment as one of their chief developmental and social problems but do not have policies or programmes directed towards job creation as a specific focused goal. A central reason for this is that there is a lack of guidance with regard to how local authorities might go about generating a coherent approach to addressing the employment crisis. The purpose of this work is, therefore, to guide local authorities—and other actors and stakeholders at the local level—towards a coherent approach to attaining high levels of productive, secure employment and decent work.

1.2 Structure of the Report

The Report comprises six chapters. These can be read consecutively or independently. Broadly, following this chapter, Chapter Two provides background material that helps users to understand the how and why of the deepening employment crisis. Chapters Three and Four show the main kinds of initiatives so far being undertaken by local governments to generate employment and evaluate the strengths and weaknesses of current policies and initiatives. Chapter Three addresses what active local governments are doing on their own initiative with their own resources. Chapter Four then indicates what local governments, with the assistance of national governments and international development agencies, are doing in close cooperation with other local actors to generate work through local entrepreneurial effort.

The final two chapters aim to move beyond current practices to adopt an altogether more coherent and comprehensive approach to urban employment generation. Chapter Five discusses some of the broader concerns that need to be taken into consideration, so that a coherent strategy can be developed to address the issue of how to attain secure employment for all those who wish to work. Chapter Six presents a comprehensive approach to employment generation in the form of a local development strategy set out as a sequence of steps and activities that local governments can take over the coming years.

1.3 Background Issues

How is it that the employment crisis has emerged and how are we to understand what is involved? The following sections are presented as background, in order to provide a better understanding of certain things that are happening in the world that are contributing to the emergence of the crisis.

Population Growth and Urbanization

The human population, which, over thousands of years, had gone through a gradual, if uneven, growth punctuated by periods during which some civilizations declined, went into an altogether different growth profile that started some two hundred and fifty years ago. By the 20th century, exponential growth meant a doubling of world population approximately once every 40 years, with the growth rate peaking in the 1960s and currently in decline. While this is seen in terms of a ‘population transition’ that would see the world population stabilizing between nine and ten billion after the middle of this century, at present, with a global population of 6.75 billion, most of the world is still experiencing rapid population growth. While this growth is now very slow in the northern countries and is even expected to decline in the coming years, throughout the developing world rapid population growth is resulting in a problem of where and how the increase should be accommodated.

Although cities of over one million inhabitants first appeared over two thousand years ago, urbanization in the modern sense—the trend towards populations living predominantly in urban agglomerations—started only some 200 years ago, and then only in the United Kingdom. Gradually spreading as a phenomenon across Europe and thence to other areas of the world colonized by the Europeans, by the turn of the 20th century, this had become a clear phenomenon that ended later in the century, with around 80 percent of the population in the northern countries living in urban areas.

The ‘second wave’ of urbanization started towards the middle of the 20th century, with Latin America having completed the transition by the end of the 20th century. Africa and Asia are currently urbanizing rapidly, with the percentage of the population living in urban areas now varying from 20 percent to 50 percent. While this was initially accompanied by the continuing growth of rural populations, in many countries these are now starting to decline, just as they did in the North during the 20th century. Nevertheless, where rural-urban migration dominated the early phases of urbanization, urban population growth in developing country cities is increasingly the result of natural population growth rather than rural to urban migration. The reclassification of rural communities that are growing into towns and cities is also contributing to the growing urban population counts.

What comprises ‘urban’ in geographic terms has changed substantially over the past 50 years. In the past, the boundaries of towns and cities were relatively sharp, which meant that the difference between urban and rural could be determined easily. Today, urban authorities everywhere are aware of the rapid changes taking place in the structure of their towns and cities, and the way in which city boundaries coincide less and less with the populations and economic activities that they might consider to belong to the city. Cities everywhere are becoming less dense and are creeping into the surrounding countryside, particularly along the roads leading into the countryside, although industries and informal settlements are sometimes being set up on land lying some distance from the city to which they relate. This can easily lead to difficulties in trying to develop coherent policies and programmes to solve a whole variety of local problems, ranging from infrastructure provision to social programmes, as well as problems relating to the provision of adequate, decent employment.

As regards the structure of employment in cities, we should remember that until very recently, the majority of the consumption in cities—in terms of food, building materials and

many consumer goods—was produced from the resources of the urban region itself and through the work of the citizens of each city meaning that employment was available in all cities, in almost all industries and occupational areas. With the early exception of the United Kingdom, this self-reliance was still evident in European cities even well into the 20th century and has been declining rapidly in developing countries only over the past two or three decades.

Only from the mid-20th century, accelerating in the past 30 years, have cities in industrialized countries—and increasingly also in developing countries—come to rely overwhelmingly on materials and goods produced outside the urban region and thence from all corners of the globe. In terms of employment patterns, this has meant that different cities have very different employment profiles, in accordance with the industries in which they specialize, in relation to the national and even international economy. On the other hand, many industries that employed much of the citizenry in the past hardly have a presence in the cities anymore and this is clearly an important factor underlying the lack of productive employment and decent work in cities throughout the developing world.

Changing Aspirations and Lifestyles

There are many reasons behind the current phase of urbanization, including increasing problems encountered in rural living and the economic pressures and attractions discussed below, and also aspirations to change lifestyles.⁶ Today, even rural populations have access to television and other information and can easily travel to and from the towns and cities in their own region to experience urban life for themselves. The attraction of migration to the city might be the search for work or perhaps just the hope of finding work and even today, in a general way, “economic factors seem to be the primary driving force of urbanization” (UN-HABITAT, 2008, 28). The incidence of unemployment and underemployment and the related poverty in cities might be expected to slow or even reverse urbanization trends. However, this is not happening; it appears that people, particularly the youth, are migrating to urban areas in spite of unemployment because they aspire to the lifestyle that they are finding there (UNFPA, 2007, 5). In addition, migrants are seeking not only the conveniences but also healthcare and educational facilities for their children.

Once in the city, their life changes. Much of what, in rural areas, came in the form of subsistence has, in the city, to be paid for, which requires an income the lack of which becomes a dimension of poverty that is qualitatively different in the city compared with the situation in the country. Part of the city’s attraction may be the forms of entertainment there that cannot be found in the countryside. Nevertheless, the lack of income suffered by large numbers of people makes it difficult to afford much more than basic survival. In many cities significant numbers of the poor live and sleep in the streets for lack of housing; others live in slums initially built from waste materials and these lack infrastructure and amenities. For the youth in particular, the frustrations of being excluded from practically everything that urban life seems to offer leads all too easily to crime, which is on the increase in many cities. In this way, significant populations suffer social, economic and psychological consequences of inadequate employment and urban life becomes perverse. Yet, cities are in need of substantial work to improve living conditions.

⁶ This has been a very widely debated issue, which is clearly complex and without any simple explanation (see Devas and Rakodi 1993, 22-25 for a thoughtful discussion of this debate).

Changing Economic Structures

Urbanization in the North was clearly driven primarily by changes in economic structures. Farming was becoming more efficient and requiring less labour. Industrialization was leading to huge increases in production, demanding labour in mines, transport and above all in the growing size and numbers of factories. The early era of industrialization went through booms and busts, where labour was in great demand, fuelling urban growth, followed by crises and unemployment. But industrialization, and with it urbanization, was spreading across the late 19th century in the North. The conviction took hold that this would be the future of the whole world and this became the very meaning of the concept of ‘development’. The shock of the Great Depression of the 1930s led, after the Second World War, to a new, global system of economic regulation that seemed to be resulting in an ‘end state’ in the North, which involved full employment that was divided among three broad sectors, albeit with incipient decline in agricultural employment as productivity continually rose resulting in the shedding of labour, but with growing service employment that compensated for this.

The development machinery of the United Nations and International Financial Institutions (IFIs) founded after the Second World War, with their financial underpinnings resourced by the increasingly wealthy northern countries, was premised upon the notion that in time, all countries would develop industrially, following the lead of the North, to ‘become developed’. Early indications confirmed this as a possibility.

However, the declining demand for agricultural labour that emerged in the North in the face of rapid growth in productivity that radically reduced the demand for labour per unit of output also began to manifest itself increasingly in the manufacturing sector. Improvements in production machinery, particularly with the introduction of information technology, was foreseen in the late 1970s as potentially radically reducing the need for labour per unit output in most production industries (Nora and Minc, 1978; Rada, 1980; CSS, 1981). Indeed, this did actually come about in subsequent years, complemented by new management methods that have had the same effect. This was not compensated by the growing proliferation of, and demand for, manufactured products. And so, as the global economy became progressively more integrated, this not only resulted in declining demand for labour in manufacturing but also meant that there would be a decreasing possibility of developing countries using investment in manufacturing as the driver of a balanced economic development.

Traditional labour-intensive manufacturing—including, for instance, food production for local tastes and local handicrafts—have persisted but have been progressively undermined by competition from modern, capital-intensive, production methods in a situation of increasing free trade and the removal of protection for such industries. It is only through cultural preference—locally for local produce or internationally in the fashionable purchase of hand-made goods—that traditional production methods survive in the face of growing price differentials.

A small number of countries—the ‘Newly Industrializing Countries’ (NICs)—succeeded in generating and attracting the bulk of new investment in manufacturing and, indeed, manufacturing transferred from the ‘industrialized countries’ thus actively participating in the ‘globalization’ of manufacturing. Nevertheless, by the turn of this century, it was evident that with very few exceptions, even in these countries, growth in manufacturing industry would not, in itself, suffice to make the full transition to high-income economies. Instead, as traditional agricultural employment became saturated and, as happened earlier in developed countries, subject to productivity improvements, to diminishing demand for employment, this went into decline also in developing countries, available employment ‘jumped over’ the stage of industrialization with urban service employment being the only area where jobs might be found.

In the developed world, the transition to predominantly service economies has, to a substantial degree, been accomplished through the extension of high-quality, high-skilled and high-paying services. In developing countries, those wishing to enter the service economy—for want of other employment opportunities—overwhelmingly lack the skills necessary to undertake high-quality, high-paying services, and levels of pay even amongst more skilled service workers have, for the most part, remained considerably below their counterparts in developed countries. The result has been large and growing pools of informal service work in which pay and quality are lacking in the overall context of weak urban economies that offer little by way of decent work opportunities.

Later in this Report we shall be looking in greater detail at the structure of local economies and the kinds of work being carried out in cities. It seems clear that while policy measures might succeed in slowing the transition out of subsistence agriculture, it cannot altogether be halted. Is there, nevertheless, scope for employment in agriculture to serve urban needs and in measures to protect urbanizing environments? Are there, nevertheless, opportunities to ‘recolonize’ manufacturing? And what are the possibilities of upgrading service activities so that these can command higher pay?

The Need for Work to be done

It is ironic, even shocking, to see so much unemployment and underemployment in the cities across the developing world when, at the same time, there is such an urgent need for work to be done. Most obviously cities are seriously lacking in adequate infrastructure. Water supply is poor, both in terms of quality and in the lack of adequate means of distribution. Even basic sanitation is almost entirely lacking in slum areas, with a global estimate that 20 percent of the urban population is lacking improved sanitation arrangements; this rises to over 30 percent in Southern Asia and reaches almost 60 percent in Africa (WHO/UNICEF, 2008,10). Furthermore, the majority of cities in developing countries are altogether lacking in modern sewerage systems with the result that ground and surface waters are heavily polluted and thus precipitate significant health problems, particularly amongst the poor. Besides lacking sewerage, very many cities lack anything approaching coherent drainage systems and consequently experience regular flooding, which, in some cities, has reached chronic proportions. All this requires massive amounts of work to rectify.

Solid waste management is also very poor, ranging, for example, from 80 percent collection in Jakarta down to 40 percent collection in Dar es Salaam; most cities in developing countries are entirely lacking in sanitary means of disposal, which has resulted in ground contamination, air pollution from burning and pollution and the blocking of waterways and drains from random dumping. While waste management systems are a source of employment—and with informal collection and sorting providing jobs and income for millions of ‘waste pickers’—reorganization of the entire systems could improve the sanitary dimension substantially and also make better use of waste as a resource, as well as eliminating the blockage of drainage channels caused by the random disposed of waste; at the same time, this could augment employment.

The state of urban roads and especially sidewalks is often very poor and transport systems—while providing much employment in more or less informal minibus, jitney and related means of informally organized public transport—are in need of improvement, in order to upgrade urban efficiency and enhance urban environments. The reorganization of land uses could also provide more and better quality employment both in initial construction and in ongoing operation and maintenance, as well as creating better-organized cities that might be expected to induce employment in other fields.

The quality of much of the housing in most cities in the developing world, particularly those in Africa but to a significant degree also in Asia and Latin America, is very low with

large numbers of urban citizens living in poorly constructed slums built of poor materials, which are sometimes situated in dangerous locations and offer only degraded and overcrowded living conditions (UN-HABITAT, 2003; Davis, 2006). Although it is evident that governments do not have the means—and that the formal private sector lacks the interest—to provide better quality housing, innovative approaches to upgrading involving slum communities directly offer opportunities to improve housing standards, while at the same time generating local employment. Whereas in some countries and cities the ‘squatting’ of land is both tolerated and widely practiced, in many places land tenure—in the sense of the illegality of occupation of the land on which houses are built—is, nevertheless, a significant inhibitor of improvement of both the houses and the infrastructure serving them, and hence of generating work to improve the situation.

Beyond the improvement of the urban physical and living environment, work is also needed to improve social infrastructure and services. Here again, as in the area of housing improvement, local authorities lack the means and the formal private sector generally has little incentive to provide these for poor communities. However, innovative and community-based approaches promise to create employment through mutual help, which, in the long run, can develop into formal facilities and systems, with local authorities facilitating their development.

Finally, it is necessary to inquire into how, as in the past, urban and peri-urban economies can better satisfy the consumption needs of their citizens, starting from the current situation in which poverty is depriving growing urban populations of even basic requirements and where households are going hungry. It is this area that provides the greatest challenge for local authorities and communities faced with unemployment and poverty. The last chapter of this Report aims to set out the means that can be used to confront this situation and develop effective initiatives to combat poverty with the creation of employment at the center. It is, indeed, anomalous that so little attention is paid to the links between poverty and unemployment and that it is through productive employment that incomes are earned and consumption needs thus satisfied.

1.4 The Role of Local Government in Employment

Creation: An Introduction

This Report is directed, in the first instance, to urban local governments everywhere but with a main focus on the local governments of towns and cities in the developing world. It aims to help people working in local government to think coherently about the problems of unemployment and underemployment – and the poverty that so often accompanies this – and what might be done to create decent and secure employment. It then provides some detail on how these actions can be structured and implemented. What should be noted at the outset, however, is that the capacity of local governments to take this set of problems in hand varies enormously depending, on the one hand, upon the size of the town or city and, on the other, upon the difference in resources to be found in cities in different global regions.

While mighty cities such as São Paulo, Johannesburg and Shanghai have very considerable human, technical and financial resources to apply to these problems, smaller local authorities, especially those in the least developed countries in Africa, have very few resources indeed to direct towards addressing any of their responsibilities. There are also differences in the level of responsibilities handed down by central governments.

Decentralization, which is taking place in a wide spectrum of countries (UCLG, 2008), is providing local governments with more freedom to direct their efforts into what is perceived locally as important and the financial resources available to local governments are also tending to increase. However, there are legal limits to the decision-freedom of local governments everywhere and in some countries these remain extensive. We try to

take account of this in various places to help local governments, at whatever level of resources and decision-freedom, to be able to identify opportunities for increasing the availability of employment within their jurisdiction.

The subject with which this section is concerned has, for clarity and convenience been divided into two sections; one chapter deals with actions that local authorities can take predominantly on their own and the second is concerned with actions they can undertake with other actors or by stimulating other actors to take the initiative.

In the first place the question is: How can local governments direct their own resources that they use for urban development in ways that create a greater number of jobs for those more susceptible to unemployment and underemployment, who are generally the unskilled? As discussed above, urban infrastructure and services are of poor quality and are often incoherent or altogether absent. Although the institutional responsibility for providing different services and components of the infrastructure vary from country to country, local authorities usually have considerable responsibilities in these fields.

Even where the responsibility lies elsewhere, for instance with regional water supply agencies and national energy undertakings, local governments can, nevertheless, have some influence on what infrastructure is provided and how this is done. In almost every case there are choices with regard to how infrastructure is provided, with significant differences between capital-intensive and labour-intensive methods. Where local authorities have a concern to create employment, this is the first area in which they can choose to spend resources that will anyway be invested, in ways that can be 'employment-rich'.

It was noted above that local authorities have inadequate resources to become major providers of housing. They do, nevertheless, usually have the possibility of influencing the methods by which housing is provided, which range from upgrading slums, through sites and services to subsidies and other facilitatory means to stimulate housing construction, although overcoming tenure problems as a prerequisite to official action in making improvements does, generally, require the intervention of the national government. As in the case of infrastructure provision, local governments have choices with respect to these powers and responsibilities regarding the degree to which they are implemented through local resource-based methods. This is true also of any construction projects for which local authorities are responsible, which might include schools, health facilities and municipal buildings.

Local authorities are also usually responsible for various aspects of regulation of the way in which local economic processes operate. Different municipal departments are often responsible for different aspects of regulation including building and planning permits, health regulations, business registration and many more. There has been much debate on how regulations can introduce incentives or disincentives to entrepreneurial activity and employment generation, and programmes are being implemented in many countries and cities to streamline these regulatory functions and connect them with activities including incentives and training that will encourage, rather than discourage, activities that create employment.

But insofar as municipalities are concerned to influence the wider local economy to enhance the provision of work, it is necessary for them to reach out to a wide range of other actors and work together closely to construct mechanisms designed to develop the local economy and related social support networks. Over the past decade, there has been increased interest in creating more coherent initiatives towards local economic development. There has been a tendency for some local governments to see their task in this respect as being limited to efforts to attract inward investment as foreign direct investment (FDI) of formal industries, particularly by using the mechanism of Export Processing Zones (EPZs). This, however, is a volatile road to employment creation, with industries relocating in response to changes in competitiveness as well steep decreases in

employment in manufacturing. This has rendered these approaches to local economic development less and less effective to stimulating employment given also a fast growing workforce.

Chapter Four describes many kinds of initiative that have been taken in recent years to stimulate economic activity at the local level; there is no need to describe these in any detail here. Such efforts require a thoroughly participatory approach, which local authorities are in a position to stimulate but in which different groups of actors—chambers of commerce and other employers' associations, trade unions, representatives of groups operating in the informal economy, non-government organizations, community groups and many others—need to be involved in a cooperative and coordinated way if progress is to be made towards optimized employment. Chapter Six discusses how these efforts, and others, can be forged into coherent local strategies, in order to create an upward spiral of local socio-economic development through the harnessing of local resources and local markets for employment creation.

Chapter Two: The Context for Urban Employment Generation

2.1 Introductory Summary

This chapter intends to introduce the subject matter in three parts. Until recently, the policies of the international development agencies have not really been focusing attention directly on the growing problems of unemployment and underemployment or the means of combating these and achieving high levels of employment. However, this is coming increasingly into focus and the first section of this chapter briefly documents this policy development and introduces the chief international organizations involved with urban issues that can provide support to local governments in their efforts to generate employment.

The current crisis in employment is not a simple short-term fluctuation, although it might appear to be comforting that the severe increase in unemployment over the past year will be reversed when the global economy recovers. There are deep structural reasons in the trajectory of national and global economies that are leading inexorably to reductions in the demand for labour. The second part of this chapter explains what is happening as essential background to the later parts of the Report and indicate that only focused and comprehensive approaches will get to the roots of the problem and be capable of achieving high levels of employment.

The third section of this chapter presents a number of concepts specifying what we mean by ‘employment’ and it will be helpful to understand and keep these in mind when reading the rest of this Report. This section looks in particular at the ILO concept of ‘decent work’ and explains that we are not just looking for employment of any kind but rather employment that provides a living income and offers acceptable working conditions. It further provides an understanding of ‘urban labour markets’ and goes on to emphasize the problematic of the urban informal economy that, in recent years, has grown to a position of dominance throughout the cities of the developing world. Finally, reference is made to ‘the work process,’ contrasting traditional and informal working circumstance with those produced by the modern economy with its complex and sophisticated machinery and work procedures.

Article 23 of the Universal Declaration of Human Rights states that: Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. The ILO’s Employment Policy Convention (C122, 1964) reinforces this notion by requiring governments to pursue an active policy designed to promote full, productive and freely chosen employment, whilst ILO Recommendation 169 Employment Policy (Supplementary Provisions) of 1984 specifically identifies the importance of promoting urban employment.

2.2 International Support: Policies and Programmes

In recent years, the deepening employment crisis has been observed in the international arena and increasingly, policy measures have been incorporated into major

international agendas and declarations intended to promote more coherent actions in terms of programmes and projects supported by international and bilateral development agencies. This subsection summarizes some of the main points that have been made in five of these key international policy documents and then briefly describes the activities of the main agents responsible at the international level for supporting urban development, focusing on their policies and activities concerning the generation of employment.

The Habitat Agenda

This 170-page document was the outcome of the HABITAT II Conference held in Istanbul in 1996 (UN-HABITAT, 1996). It remains the most complete international agenda for urban development in the 21st century and local authorities should be aware of this fact, as well as of the policies that it contains, as representing recommendations from the international level and important ways that local authorities themselves might well understand their predicament and what approaches they should be taking, strategically, to address problems of urban development in an urbanizing world.

The problem of the lack of adequate employment opportunities resulting in unemployment and underemployment, particularly in the informal economy, are acknowledged and the need to provide employment opportunities is discussed throughout the document in its various dimensions.

The problem of inadequate rural employment that leads to rural-urban migration is acknowledged and whilst there is an ongoing need to create employment in rural areas, it is today widely accepted that urban growth is irreversible and hence the need to generate, in urban areas, "...secure and sustainable livelihoods through freely chosen and productive employment and work" (paragraph 28). This is seen as one of the main pillars of sustainable urban development.

Chapter IV provides a 'Global Plan of Action' that proposes strategies for implementation and, in this context, makes reference to the planning, construction, maintenance and rehabilitation of urban infrastructure and housing. There is an emphasis on the use of technologies that generate employment in the construction sector and their use in the context of cost-effective employment-intensive contracting and construction methods.

In discussing social policies in relation to urban development, there is an explicit recognition of the link between, on the one hand, poverty and, on the other, unemployment and underemployment; hence the need for employment generation as an essential dimension of poverty reduction, with particular reference to the needs of women and young people who are having difficulty in finding work. Turning to the issue of local economic development, there is, again, recognition of the need not simply to seek any means to increase local investment and production but also to be aware of the need to ensure that the kind of economic development that does take place is labour intensive rather than capital intensive. Finally, employment generation is among the key indicators that should be used to monitor progress on the achievement of the Habitat Agenda.

In 2001, the United Nations organized a meeting in New York, known as HABITAT+5, to review progress on the Habitat Agenda. The official report (UN, 2001) notes the continuation of insufficient urban employment generation, concluding that it is essential that this problem be adequately addressed by local governments and development agencies, and also that there is a growing awareness that this concern should be incorporated in the broader framework of development.

The Millennium Declaration and Millennium Development Goals

The present strategic framework for development against which the UN and other development organizations are, in general, measuring their success are the Millennium Development Goals. These were adopted, together with the Millennium Declaration that encapsulates the Goals, in the UN Millennium Conference of the year 2000. A major focus of the MDGs is poverty alleviation as measured by a reduction of the numbers of people living on less than one dollar a day (recently revised to one and a half dollars a day) and although it might be asserted that raising incomes requires that there be adequately paid work for all who wish to work, this was not thematized as such in the MDGs or in the work of the task forces that produced reports concerning how the MDGs might be achieved. However, this was acknowledged in UN General Assembly resolution (60/1), adopted following the 2005 World Summit, which reviewed progress on achieving the MDGs and the methods that had been developed to measure this progress. Paragraph 47 of the resolution reads:

*“We strongly support fair globalization and resolve to make the goals of **full and productive employment and decent work for all**, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as defined in International Labour Organization Convention No. 182, and forced labour. We also resolve to ensure full respect for the fundamental principles and rights at work.”*

The 2006 ECOSOC Ministerial Declaration on employment and decent work

In July 2006, the UN Economic and Social Council, that concerns itself with the content of United Nations programmes, sat in Geneva and, in the light of the foregoing policy initiatives and declarations, focused on the problematic of the growing employment crisis. This resulted in a Ministerial Declaration that brought the issue of employment to the forefront of the development policy process. The initial paragraph stated:

*“We are convinced of the urgent need to create an environment at the national and international levels that is conducive to the attainment of **full and productive employment and decent work for all** as a foundation for sustainable development. An environment that supports investment, growth and entrepreneurship is essential to the creation of new job opportunities. Opportunities for men and women to obtain productive work in conditions of freedom, equity, security and human dignity are essential to ensuring the eradication of hunger and poverty, the improvement of the economic and social well-being for all, the achievement of sustained economic growth and sustainable development of all nations, and a fully inclusive and equitable globalization.”*

The Declaration makes the vital link between the internationally recognized urgent agenda to reduce poverty and the fact that an essential step in this process must be that decent work, encompassing fair incomes and decent working conditions and relations, is available for all. It goes on to specify what this would mean in practice and relates it to the full spectrum of development goals and policies. While there is no emphasis on the particular needs of cities and urban authorities, the Declaration should be read as the commitment of the United Nations system to support country efforts to attain high levels of employment and decent work.

The UN System's Toolkit for Mainstreaming Employment and Decent Work

The United Nations System is made up of many specialized agencies that fulfill different tasks in terms of promoting development. There has been an increasing realization that there is a need for better coordination not only in terms of the strategic policy level, as provided by the Millennium Development Goals, but also in the details concerning the content of, and approach to, the many programmes and projects that the agencies develop and implement.

There is, therefore, a new initiative termed 'One United Nations' and the UN System Chief Executives Board for Coordination (CEB) has been established to make this a reality. Following the adoption of the Ministerial Declaration on employment, the High Level Committee on Programmes (HLCP) of the CEB decided to develop a Toolkit for Mainstreaming Employment and Decent Work. The International Labour Office was asked to take the lead in developing the Toolkit in collaboration with interested agencies and in consultation with all members of the HLCP.

The purpose of the Toolkit is to bring the issue of **full and productive employment and decent work for all** into the formulation of *all* relevant UN programmes thus 'mainstreaming' employment issues in the development process. The Toolkit is structured in terms of a series of questions, which those responsible for developing programmes right across the UN system should take into account.

Finally, we need to ask what the relevance is of these moves in policy formation at the level of the United Nations for local governments concerned with the growing crisis in employment, who see the need to generate employment as one of their own policy priorities. There is, within the UN system, a growing realization of the importance of employment generation not, as in the past, as an indirect dimension of poverty reduction and local economic development, but as being at the very heart of these. The intention, as expressed in the Ministerial Declaration and implemented through the Toolkit, is that United Nations assistance to countries, and to local governments within countries, will, in future, have a greater awareness and sensitivity to understanding the employment implications of new initiatives and to select development options that are more likely to be 'employment-rich' and create decent work for all.

UN-HABITAT

Established as a United Nations Centre in 1978, following the HABITAT I conference in Vancouver, UN-HABITAT is now a full United Nations Programme that focuses on shelter and urban development. It runs major programmes on urban governance and secure tenure for those living in informal settlements and these involve national and local governments. The *Safer Cities Programme* focuses on local economic development, employment and poverty reduction, with a concern for financial aspects of urban development. It co-founded, with the World Bank, the *Cities Alliance* described below and has become increasingly involved in directly addressing the needs of local government through collaboration with *United Cities and Local Government (UCLG)* introduced below.

UN-HABITAT's engagement in infrastructure, decentralized basic urban services, housing and slum-upgrading has developed into integrated programmes that are offered to national and local governments. Local economic development, with a concern for employment generation, is an integral component of this offer, with capacity-building through best practice and training being important dimensions of the competence of the agency.

Cities Alliance

The Cities Alliance, a global coalition of cities and their development partners, is a joint initiative started in 1999 between UN-HABITAT and the World Bank, with its headquarters at the World Bank. Subsequently, the partnership has grown to include other UN agencies and bilateral donor organizations. It was founded to work directly in, and with, city governments, in order to 'jump start' local reforms and programmes aimed at substantially improving the quality of the planning and management of urban development. It supports two types of project, although in some projects elements of both types are present. These project types are: *City Development Strategies (CDS)* and *Slum Upgrading Programmes* under the general title of *Cities without Slums*. Well over 100 cities have undertaken projects within this framework.

City development strategies are short projects lasting up to three years, which follow a particular sequence of events where, following an initial information gathering exercise, a participatory planning process defines a city vision and prioritizes actions to be undertaken. This process takes place under four general headings: productive cities, sustainable cities, inclusive cities and well-governed cities. Priorities vary from one city to another and the major focus might be upon the reform of urban management procedures, urban financial management reform, the upgrading of slums and the general improvement of urban infrastructure provision, as well as other initiatives designed to improve the urban environment or pro-poor local economic development (LED).

In support of LED initiatives, the Cities Alliance has produced a resource guide to assist in the first stage of city development strategies to gain an understanding of how the local economy works (Cities Alliance, 2007). So far, CDSs have not focused significantly on employment generation, which is, in fact, perceived to be integral to pro-poor economic development strategies. The implementation of city development strategies includes internal changes to the approach to urban development and, in many cases, this is followed by larger investments, for instance in infrastructure.

United Cities and Local Government (UCLG)

UCLG, headquartered in Barcelona and with seven regional section offices, represents local governments and local government associations at the international level. It was founded in 2004 by the merger of the two previously existing global municipal associations. Its mission is to be the united voice and world advocate of democratic local self-government, promoting its values, objectives and interests through cooperation between local governments and within the wider international community.

UCLG carries out various activities to implement its vision. It has established 15 committees and working groups that pursue various objectives. Two of these committees have carried out major studies aimed at informing and assisting local governments in matters of local finance and decentralization (UCLG, 2007; 2008). There is, as yet, no committee that focuses attention on the growing urban employment crisis or on local economic development, although this is an area in which, in the longer run, it can be expected that the UCLG will become engaged.

International Labour Office

The ILO is a tripartite specialized UN agency with the chief responsibility to assist governments and social partners to achieve full and productive employment and decent work. Its main aims are to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen social dialogue. It has a particular interest in improving the conditions of those working in the informal economy and also works with governments to promote the better use of infrastructure investments towards

creating higher levels of productive employment, seeing local resource-based techniques as one of the main vehicles to generate and support productive employment.

To conclude this summary of international policies and organizations with responsibilities to assist in employment generation, it should be made clear that local authorities are at liberty to contact these organizations (and other international and bilateral organizations), in order to seek assistance. Many local authorities have direct experience of programmes and projects assisted by these organizations and these are open to the approach of other urban authorities. Alternatively, this may be undertaken through national municipal organizations although in some countries, this will first have to pass through the national agencies that coordinate international cooperation.

2.3 The Global Context and its Impact of Cities

In the first chapter, a sketch was provided of certain essential background conditions that set the framework for the employment crisis. These are the rapid population growth that fuels rural-urban migration and the internal expansion of towns and cities without concomitant growth in demand for labour, together with technological and organizational productivity increases that leads to decline in demand for labour in agriculture and industry. These might be referred to as ‘natural tendencies’ but it is also very evident that these, and additional developments that still need to be clarified, have been strongly influenced by the international policy framework that has prevailed over the past three decades.

The end of the 1970s saw a sharp change in policies pursued initially by the International Monetary Fund (IMF), which has a strong influence on the economic policies of developing countries, especially the poorer ones. This was followed by the World Bank and the major bilateral donor agencies insofar as these are coordinated in terms of their economic development policies by the OECD. These were then joined, in the 1990s, by the establishment of the World Trade Organization as an institution created explicitly to promote free trade.

The concern at that time was with a debt crisis affecting many low-income countries as a consequence of the high energy prices of the late 1970s and, in many cases, also development investments, the return on which fell short of expectations. The immediate solution was seen by the IMF as a need for these countries to generate hard currency rapidly, in order to stabilize and thence service their debts. Although there were certainly other policy frameworks that could have overcome the debt problem in the longer term, the choice fell upon the liberal policies of free trade and the promotion of ‘markets’ as the main mechanism of development, unleashing what has become known as ‘globalization,’ initiating rapid growth in trade as a percentage of GNP and, in general, an increasingly interdependent world economy.

As early as 1969, discussions in the United Nations on the launching of the Second Development Decade emphasized:

*“The major problem for the Second Development Decade is likely to be unemployment and underemployment... In the absence of vigorous enforced employment policies, the grim prospect of the Second Development Decade is one of rising unemployment, accompanied by increasing concentration of the worst aspects of poverty in cities.”*⁷

⁷ Quoted in Wolfe (1996, 27).

By the end of the 1990s, although the general economic development framework remained firmly in place (UNCTAD, 2002) poverty, and to a significant degree urban poverty, had forced its way to the forefront of the development agenda as evidenced by the introduction of Poverty Reduction Strategy Papers (PRSPs) as guidance for World Bank investment and, more generally, initiatives of the development institutions and in a series of documents circulated by the key development agencies (World Bank, 2000; UNDP, 2000; Secretary of State for Development, 2000; OECD-DAC, 2001). Although many reasons were identified for the growing level of poverty, far from the link between growing poverty and growing unemployment and underemployment being made in these documents, this was almost entirely ignored.⁸

This policy framework had various components that were encapsulated in the early 1990s in the ten-point 'Washington Consensus,' some of which have been modified although their basic foundations remain in force. Two major assumptions are: 1) that governments, and government enterprises, are inefficient and should, therefore, be sold into the market to free up capital for what is assumed to be the more economically dynamic and efficient private sector and; 2) that labour markets should be made freer, in order to enable entrepreneurs to respond rapidly to market opportunities. Free trade should encourage inward investment to gear up exports, which would not only pay off debts but also result in more rapid economic growth that would benefit all concerned in the medium-term.

There are critics who point to the fact on hard evidence that virtually all countries that have actually achieved modern development, from the United Kingdom and the USA through to Japan and the Republic of Korea, have done so behind strong trade barriers and with systematic government steering of the development process. These countries only opened their doors to free trade once their industries were strong (Chang, 2002, 2007) implying that *prima facie* weak economies face insurmountable difficulties to develop within a liberal, free-market framework.

Although continuing to believe that 'globalization' has the potential to promote universal development, Joseph Stiglitz (2002), reflecting on his years as Chief Economist of the World Bank, was, nevertheless, sharply critical of the particular way in which the free-market policies had been implemented by the IMF. He was particularly concerned by the disregarding of the obvious need to move slowly, and on a step-by-step basis, to opening countries to the international free market; seeing what works and what does not work, and responding to experience. A 'one size fits all' policy framework is manifestly inappropriate, with particular policy trajectories for each country being required instead.

From the outset, it was clear that in the first instance, IMF policies, if implemented preemptorily, would exacerbate incipiently growing unemployment and underemployment and increase poverty but it was asserted that in the medium-term, with the rebuilding of economies along market lines, the countries would be better off as a result of accelerated economic growth. Countries applying to the IMF for loans to cover debts and debt servicing in the context of the debt crisis were required to undertake 'structural adjustment' involving the introduction of liberal rules to the management of their economies. Unemployment and poverty did, indeed, follow the initial policy implementation and in the case of the 'shock therapy' applied to the eastern bloc following the collapse of

⁸ An analysis of a number of CDSs carried out as background to this Policy Paper, which enquired into the role envisaged for employment generation in reducing poverty (Miller and Cohen, 2008) revealed the relative absence of links being made between, on the one hand, unemployment and underemployment and, on the other, poverty. Analysis of key documents focusing on the problematic of poverty and poverty reduction enumerated in the text above reveals the same absence.

Communism, this resulted in serious economic contraction, which, in some cases, took more than a decade to recover previous levels of economic activity.

By the mid-1990s, it was evident that these policies were failing to produce the expected levels of growth, which, in practice, in most countries had slowed down or had even gone into reverse resulting in an increase in the number of people living in poverty in the majority of developing countries. This was accompanied by sharpening income disparities with relatively small elites being the beneficiaries of whatever growth there was. In response to this, the World Bank introduced the above-mentioned Poverty Reduction Strategy Papers (PRSPs), produced in partnership with each country, which have since provided the basis for lending by the International Financial Institutions (IFIs).⁹

At the same time, a consortium of civil society organizations from both developed and developing countries reached an agreement with the World Bank to carry out a joint review of the results of structural adjustment. Carrying out in-depth research on a small number of countries, these are some key conclusions from the resulting report (SAPRIN, 2004). When examined in detail the impact of structural adjustment has varied greatly among countries, depending on the preparedness of specific industries to be able to take advantage of the opening of markets. However, growth sectors tended to relate to single industries and were very volatile¹⁰ with the general trend, in many developing countries, being for manufacturing to decline as a consequence of the rapid growth in import of cheap substitutes, much of these between developing countries and especially imports from Asia to Africa and Latin America.

The negative impact of liberalization on small and medium indigenous industries that are unable to compete against imports, and on larger enterprises, was compounded by the liberalization of the banking sector, which significantly lost interest in financing the very small and medium enterprises (SMEs) that are the main source of employment and local production. And so, the causes of the rise in unemployment and the informalization of urban economies had multiple origins, including the reduction in government and state enterprise employment, the impact of cheap imports facilitated by free trade, as well as the reduction in available finance for the expansion of local enterprises. At the same time, structural adjustment called for labour market reforms that encouraged the flexibilization of employment thus leading to less secure employment and the deterioration of working conditions for large numbers of workers.

A major presumption of liberalization was that there would be an increase in foreign direct investment (FDI) in developing countries, which would provide the basis of rapid economic development. Although there has been a great increase in the international movement of capital, this has remained mainly between the industrialized countries and insofar as it has been directed towards the developing world, this has been to just a handful of countries; three-quarters went to some 12 countries and the majority of developing

⁹ These have not, however, led to an alteration of the underlying liberal rules of economic management (UNCTAD, 2002) and even with recent statements that the PRSPs should reflect the countries' own policies, there is evidence that in their implementation they are still biased towards IFI and donor priorities (UNCTAD, 2008).

¹⁰ For instance, growth in Bangladesh in the manufacture of ready-made garments and knitwear over the 1990s was phenomenal, with exports comprising 75% of export receipts by 2004. However, this was strongly encouraged by the Multifibre Arrangement (MFA) that set quotas for participating countries. This was abolished in 2005, with concomitant sharp contraction of the industry (Mlatchila and Yang, 2004; ADB, 2008).

countries received a fraction of one percent. Furthermore, the impetus for most of this investment is to employ low-cost labour and countries keen to attract these investments have offered various low-tax regimes, the result of which has been that little of the added value of the shop price of produce and products exported to developed countries remains in the countries in which the investments are made, thus contributing little to the economic growth of the receiving countries (Madeley, 2000).

Added to this has been the incipient long-term decline in the price of primary commodities from the 1950s up to the turn of the century (WTO, 2003, 34-45) on which most developing countries rely as the basis of economic development. In the last five years, primary commodity prices have tended to climb with modestly positive effects on the economies of many developing countries. Commodity prices, however, remain volatile.

In 2002, the ILO called into being an independent Commission on the Social Dimensions of Globalization (CSDG), which reported its findings in 2004 (ILO, 2004). This documents the results of two decades of a liberal global policy framework. While noting many potentially positive aspects of globalization in terms of exchange and the growth of a “global community,” the report highlights 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”, concluding in a demand that the major global development institutions rethink globalization and take a correct turn to “...make the world safer, fair, ethical, inclusive and prosperous for the many and not just the few...”.

Box 1.1: The Role of Governments in Responding to the Global Economic Crisis

The April 2009 London Summit of the G20, probably one of the most important meetings of global leaders in 80 years, determined “Stability, Growth and Jobs” as the theme of the Summit and as the major orientations for addressing the Global Financial and Economical Crisis. In this context of the global economic crisis and increased recognition of the role of employment in addressing poverty, government interventions to promote employment are crucial.

In response to the challenge laid out by the G20 Summit, 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.

What is of importance is the way in which this policy framework, as well as tendential background trends in terms of the structure of employment across the spectrum of economic activity, has impacted upon the availability of paying work. This explains, in part, the weakness of local economies and the almost universal progressive growth in the informal economy. The CSDG is by no means alone in its concern for the negative dimensions of globalization and the policies that have contributed to precipitating these.

Two responses that need to be referred to immediately are the call in recent years—and the promotion by the development institutions—for the greater participation of a broader spectrum of actors in the processes of local governance and management and, as part of this, the reform of government under the general heading of ‘good governance’. It should be stressed here, however, that in the circumstances the increased intervention of government at all levels—but especially at the level of local government—is a vital dimension in combating the negative consequences of globalization and should be borne in mind as an important issue underpinning what is set out in the remainder of this Report.

Nevertheless, it is also necessary to look at emerging external factors that will be influencing changes in local economies in the coming years and are not under the control of local governments—or indeed any actors—but which will require effective responses. On the one hand, we are currently witnessing the emergence of serious structural problems in the world economy that many have been warning of in recent years¹¹ and which currently appear to be deepening into a serious global economic depression. On the other hand, the potential impacts of ‘global warming’ have also reached the top of the political agenda, with the warning that these could have serious¹² negative impacts on cities through the migration of environmental refugees and, in the case of coastal cities, sea-level rises.

A further problem—potentially the most serious in the medium term—is the impact that rising energy prices (and ultimately the diminishing availability of energy) will have on urban economies and the functioning of cities and the clear implications for urban employment (Cities Alliance, 2006). As energy—and hence transport—costs rise, we may expect that in general the price difference between imported and locally produced goods will alter in favor of local production that should have a favorable effect in terms of the profitability of local businesses and hence possibilities for enhanced local economic development and employment. This is discussed in more detail in Chapter Six.

2.4 Understanding Employment

The purpose of this Report is, as the title suggests, to assist local governments to play a more assertive role in achieving productive employment and decent work for all. This may seem like an impossible task in the face of the growing employment crisis and the growth of the informal economy, which is seen as a safety valve that is a poor substitute for the kinds of jobs people should be able to expect. Here, we want to focus some attention on ways of understanding what employment means, taking a handful of concepts and explaining them.

First of all, we should clarify that in the English language, the term ‘employment’ suggests that there is an employer (or a company) and that people are being provided with work by the employer for which they get paid. There is work—most notably housework—

¹¹ See for instance World Bank (2007) *Global Economic Prospects 2007*, pp.23-26.

¹² The World Bank (2007, Ch.5) refers to these frequently as potentially ‘catastrophic’ impacts.

that, although socially valuable, is not paid and is not deemed to be employment; there are also—increasingly, and particularly in the growing informal economies—situations in which there is no actual employment relationship but which we still refer to as employment and which can still be called ‘a job’ (people working in the informal economy often having more than one job, carried on at different times in the day or week).

Decent Work Defined

The aim of the ILO to promote, ‘decent work’ is defined as:

“Productive work under conditions of freedom equity, security and dignity, in which rights are protected and adequate remuneration and social coverage are provided.”

This obviously goes well beyond the simple promotion of more jobs. Decent work is captured in four strategic objectives: a) fundamental principles and rights at work and international labour standards; b) employment and income opportunities; c) social protection and social security; and d) social dialogue and tripartism. These objectives hold for all workers, women and men, in both formal and informal economies; in wage employment or working on their own account; in the fields, factories and offices; in their home or in the community. The ILO sees decent work as central to efforts to reduce poverty, and as a means for achieving equitable, inclusive and sustainable development. The absence of, or shortfall from, these are seen in terms of ‘decent work deficits’. We shall see below the particular difficulties faced by cities in developing countries, where decent work deficits affect the majority of those in, or seeking, employment

The Urban Labour Market

A second concept of key importance is the ‘labour market’. The name once again suggests an employment relationship, in that a market is where services are exchanged for money, suggesting that an employer pays an employee to carry out specific kinds of work. It should not, however, be concluded that ‘labour’ is a commodity but rather that it comprises socially embedded human beings. Furthermore, among the growing numbers of self-employed in informal economies, such an employment relationship does not exist. Nevertheless, the concept of the labour market remains useful in that even the self-employed are concerned with making an income and hence with being involved in the wider urban economy where money is earned as the essential means to make a living. The concept of the labour market is also the basis upon which government (and private and NGO) interventions are made in the social and economic process to help create decent employment.

The mechanisms described in Chapters Three, Four and Six below for creating employment all fall within the general framework of ‘labour market intervention’ or ‘intermediation’ (Auer et al, 2005). From the outset, it should be noted that liberal economic theory tends to be skeptical concerning such intervention in a world in which ‘labour market flexibility’ is seen as an essential part of opening the door to more efficient entrepreneurial activity and hence where intervention is likely to introduce rigidities that impair market efficiency. This might be all very well if, as is expected in this view, ‘supply creates its own demand’ and labour markets are self-regulating, producing full employment as long as the price of labour is right. However, it is evidently the case that liberal rules applied over the past decades have created, rather than eliminated, unemployment and underemployment on a very large scale such that intelligent and efficient intervention seems, *prima facie*, to be an urgent priority (Berg and Kucera, 2008).

A further criticism stems from the notion that labour market intervention is there to provide a bridge in local economies that are passing from one form of economic organization—e.g. the industrial or, in the case of the developing world, a predominantly

rural economy—to a predominantly urban service economy and where labour market intermediation is assisting in integrating entrants into the new economy. The liberal criticism here is that labour market intervention is not capable of providing a bridge where, *prima facie*, the new (formal) economy is incapable of absorbing more than a fraction of those who wish to enter it. The counter-argument, upon which the remainder of this Report rests, is precisely that more effective efforts can be made to devise the means to integrate job-seekers into the social and economic fabric, even to the extent of altering the structure of the local economy.

While we will be looking at a wide selection of means used to intermediate in labour markets to assist in (re)integrating the unemployed and underemployed, here, we make a preliminary list that outlines the main tools used by national and local governments around the world. In fact, different tools are relevant to different countries and are applied in different ways. Many of the tools developed in richer countries require a level of organization and economic capacity that is altogether missing in the poorer countries, where other approaches have to be taken. In particular, the tools being used are substantially different in situations in which the informal economy is a large or even dominant feature.

In general, we can talk about the notion of ‘labour market segmentation’ that crudely refers to the existence of ‘dual economies’ (or ‘dual circuits’) comprising the formal and informal economies. Alternatively, it can refer to the division of the labour market into various sub-groups differentiated by their level of organization, technology, productivity, investment and labour force characteristics. On the one hand, this can be said to exist insofar as there are barriers to free competition between workers and/or firms, which restrict the access of certain workers to highly paid, secure employment. This may be legitimate (and inevitable) insofar as many jobs in the formal economy require skills and experience that cannot be acquired in one day. On the other hand, while the fact of labour-market segmentation is useful for gaining a better understanding of the problems of job-creation, it is also vital to understand the essential interconnection between segments and, in particular, that the informal economy is not separate but is, at this particular time, an essential and integral part of the local economy.

Northern countries developed labour market policies as early as the 19th Century and ‘passive’ policies exist throughout the North, their main components being social insurance and basic mechanisms—or ‘labour exchanges’ or ‘placement services’—for putting those seeking jobs and those seeking workers in touch with one another. ‘Active labour market policies’ (ALMP) come in many forms—not necessarily administered by the same agency or agent—which, together, form a toolbox that is relevant and used in different quantities and ways in different countries. Below is a basic list.

Unemployment insurance is compulsory in the North but is increasingly tied to programmes of retraining and/or community work. Public employment services can go beyond simply providing information and connecting employers with employees and actively undertake job search assistance, prospecting and registering vacancies and working with those seeking work or wishing to change their work according to their profile. In addition, in many cities ‘job fairs’ are being held at which job seekers can meet potential employers. Private agencies are also widely available to undertake these tasks or specialist tasks concerned with particular labour-market segments.

Training and retraining starts with general education and vocational training. This does, however, become a more active component of the labour market when it focuses on the *actual* demands of the local economy and/or preparation for insertion into the local economy through such basics as literacy and numeracy, as well as the training required to run a micro-enterprise with reasonable efficiency, and other training necessary to be able to participate in the formal economy at all. Linked to these is the necessary training in managing self-employment and beyond this, how to gain access to finance (or micro-

finance), in order to build a business. An additional branch of this involves training in forming and running cooperatives, which is relevant to both formal and informal economies.

Some governments also intervene to support disadvantaged groups or to promote labour-intensive production through subsidies and differential taxes. Subsidies or tax breaks can be given to enterprises to encourage them to employ youth or obtain a better gender balance or to employ disabled people or other disadvantaged groups to integrate them into the labour market. Or perhaps to levy differential tax on particular goods, depending on whether they are produced by machine or, labour-intensively, i.e. by hand. In addition, over the years, an important means used by governments in the North, which is very relevant to developing countries today, has been employment in labour-intensive public-works, in the first instance to bridge crises and reduce the severity of depressions (maintain money circulating in supplies and services) and also to overcome infrastructure deficits.

ALMPs have been used dynamically in northern countries in an effort to maintain more or less full employment in situations of recession and rapid economic restructuring. Today in the developing world, however, we are facing a situation of chronic oversupply of labour relative to job offers, with governments remaining far short of the financial and organizational capacity necessary to apply 'conventional' ALMPs, in order to integrate the flood of labour seeking employment in the rapidly growing towns and cities. Confronting the resulting 'informal economy' requires other tools and here we provide a first insight into the nature of the informal economy, with a discussion on how to develop support policies and programmes set out in Chapter Six.

The Informal Economy

In the first chapter, reference was made to the global trend towards the ‘flexibilization’ of labour in the context of liberalization. In the developed and transition countries this is leading to increasing temporary and part-time work, which is often hidden insecure work and underemployment, but social welfare systems—social safety nets—generally exist to allow the majority to tide over between jobs and enable those who are wholly unemployed to continue a reasonable lifestyle until employment is found. (There are, nevertheless, increasing numbers, particularly of young people, who are ‘falling through the net’.) In most developing countries, however, safety nets and assistance to the unemployed are minimal or non-existent in a situation of rapid urbanization and inadequate investment in economic development. Here, the offers of employment fall far below the numbers needed, the only alternative for those needing an income being to create their own jobs and, collectively, to create their own economy.

This phenomenon was first officially recognized by the ILO in the Kenya report of the World Employment Programme of 1972 and was initially referred to as the ‘informal sector’. The assumption at that time was that this was a temporary situation caused by rapid urbanization and that as development progressed, this would disappear and full, formal employment would be achieved. Over the years, the ILO has been monitoring this situation¹³ and it has become evident that the informal sector—proliferating and spreading into all areas of service provision and much small-scale manufacturing, and even urban agriculture such that it has evolved into a whole dimension of local economies in cities—is not a temporary or residual phenomenon but rather a means for the majority of urban populations in low-income countries to achieve a livelihood. Although, as noted above, it is sometimes analyzed as a separate ‘circuit’ or ‘segment,’ in practice the line between formal and informal economies is very indistinct and the interdependence of the two is vital and intense. Indeed, formal and even transnational enterprises have increasingly come to ‘put out’ work into the informal economy and to ‘buy in’ services from this informal economy.

Given its complexity, there are many ways to understand the informal economy but it would seem important, initially, to stress that people working in the informal economy lack formal recognition of their work and legal protection from a whole range of hazards.¹⁴ There is, therefore, a more or less high degree of vulnerability expressed in terms of various dimensions of insecurity: insecurity through lack of access to the labour market (no formal work available); insecurity represented by inadequate income; no protection for employees against arbitrary dismissal; lack of career paths and the need to change work often, and hence to change skills, with the rapid evolution of the local economy and, related to this, no support to develop skills that might improve productivity or access to formal employment; poor access to capital that might help to develop a formal enterprise; no support for workers who are involved in accidents or fall ill, or retire; and, in the first instance, no formal organizational support available in such structures as trade unions or employer’s associations.

¹³ The ILO website contains a wealth of information on the informal economy under the title ‘Infeco’. Highlights include papers presented and discussed at the International Labour Conferences in 1991 and 2002 (ILO, 1991; 2002). See most recently ILO, 2009.

¹⁴ Information, including statistics, in the following paragraphs is derived from ILO (2002).

All of these represent what the ILO refers to as ‘decent work deficits’ and since this Report is concerned with the generation of employment, this must be taken to mean employment where these deficits are absent. In other words, insofar as the informal economy is associated with poverty and insecurity, local governments—and other actors introduced later in this Report—should not just be seeking to generate jobs for the unemployed but should also be seeking to improve the quality of employment for those currently working in the informal economy, whose present work is suffering decent work deficits.

In the past, the informal economy was seen as illegal in its entirety. Indeed, those working informally but obtaining higher incomes could still be deemed to be illegal as they could be paying taxes; moreover, activities such as drug dealing and protection/extortion must continue to be seen as illegal, as should child labour. However, the bulk of the informal economy is now generally recognized as legitimate, if problematic, and local governments should become aware of the problems of those working in the local informal economy and develop structured approaches to help overcome the decent work deficits therein and not confront informal workers as if their activities are illegal.¹⁵

The gravity of the problems can be seen clearly in the fact that almost everywhere there has, over the past thirty years, been a consistent growth of urban informal economies throughout the developing world to the extent that these now constitute the major source of employment. While it is difficult to focus on the numbers of people working in the informal economy—because many people have more than one job and/or work only sporadically or very part time and rapidly change their activity—attempts have, nevertheless, been made to show that by the turn of the century, some 60 percent of urban jobs in Africa, between 40 and 60 percent of urban jobs in Asia and 60 percent of urban jobs in Latin America were in the informal economy. Formal offers of work in much of Latin America and Africa were sufficient to provide employment for less than ten percent of those entering the labour market.

Furthermore, there is clear evidence that the current global economic crisis is exacerbating these circumstances. The informal economy is sometimes seen as a “shock absorber” in times of economic recession. Certainly, over the past year, the almost universal progressive growth, in recent years, of the informal economy has accelerated to such an extent that the “shock absorber” analogy has been rendered inadequate. Unemployment is pushing many more people into the informal economy, without any foreseeable prospects of an economic recovery that will automatically revive formal employment opportunities, and where deteriorating earning opportunities are making it more difficult for large numbers of people to earn an adequate living while suffering the multiple insecurities outlined above.

The complexity of the informal economy can be viewed in two dimensions: 1) the way in which people are employed and, 2) what people are producing by way of goods or services. In the first case, we can see that, in general, the majority of people working in the informal economy are self-employed, sometimes with other paid or unpaid family members. Some have formed micro-enterprises, with a handful of employees. Furthermore, as noted above, some formal companies, even transnationals, ‘put out’ work to home workers (particularly in the manufacture of garments and shoes) or even employ some of their workers casually, without contracts or registration. In this way, they save

¹⁵ Local Governments can avail themselves of an ILO course guide to improve their knowledge and capacities in the area of improving conditions of informal workers (ILO, 2003) available in several languages.

themselves the cost of social insurance and the provision of work places and tools. Informal cooperatives can also be found in the informal economy.

In terms of the activities in which workers in the informal economy are involved, street trading is important, and throughout sub-Saharan Africa is actually dominant. A subset of this activity is maintenance and repair work and much construction work—including employees of otherwise formal contractors—is carried out by non-registered and unprotected workers. Traditional crafts continue in many cities and where there are tourist markets, these have even been extended and added to in niche areas that are not supplied by products produced in the formal economy.

Home-working, particularly by women, is significant in some cities, especially in Asia (Barme, 2000). Informal personal services range from household work (sometimes registered) to casual shoe-shining and on-street hair cutting to prostitution and other legally (or morally) borderline activities. In most cities, urban transport, and in some cases even the production of vehicles is being run by informal or semi-informal operatives. Informal environmental services include waste collection and recycling and urban farming wherever vacant land is available. This just gives a flavor of the variety of activities that local authorities need to investigate and document as a prelude to intervention.

Box 2.1: eThekweni, South Africa – Policy and Programme Support for Workers in the Informal Economy.

At the end of the 1990s, the City of Durban—since reorganized into the metropolitan area of eThekweni—was going through a crisis, with the contraction of key industries and hence the rapid growth of unemployment and, with it, the informal economy. Recognizing that the informal economy was playing a vital role in providing incomes for the jobless and poor, the municipality initiated a wide-ranging review of its approach to the informal economy. This culminated in the Informal Economic Policy adopted by the eThekweni Municipality in 2000. In the South African local government context and, indeed, internationally, this policy framework was pioneering in that it involved representatives of informal trade organizations and municipal officials workshopping the content of the policy together over an extended period of time.

The policy started from the recognition that informal economic activity would, in all likelihood, remain a core element of economic activity in the city for many years to come and that it should be planned and provided for in the same manner as formal business development is accommodated. Critical aspects included an agreement on the regulation of trading spaces in exchange for a developmental approach by the municipality in terms of supporting the development of representative organizations and providing infrastructure and services attuned to the needs of informal economy workers. There are indications that there is only weak political support for key elements of the policy and some aspects have not been realized in practice. Nevertheless, a number of the initiatives born out of this process have had a lasting impact, specifically those related to the provision of improved trading facilities and a wider understanding of the economic significance of the informal activities in relation to the economy as a whole.

Source: Robbins, 2008.

In the early years of focus on the informal sector, much attention was paid to how to formalize this work by insisting on registration of the activities. Increasingly, it has been realized that as things stand this insistence is unrealistic primarily because it is too costly for those active in what are, for the most part, economically marginal activities. Formalization along these lines would actually lead to less employment and because those in the informal economy generally have to earn a living to survive, would drive the activities underground. Indeed, a widespread problem in many cities is that non-registration in a situation that renders informal workers illegal provides an opportunity for officials and the police to extort ‘fees’ from illegal workers and clearly this is a problem that should be eliminated. The issue of streamlining registration as one element of a local employment strategy is discussed further in Chapter Four. In addition, as outlined further in Chapter Six, local authorities and NGOs can ameliorate decent work deficits of people working in the informal economy in various ways without them being considered entirely formalized.

Salient issues concerning the Work Process

In focusing on the process of generating employment, local authorities need to be aware of certain distinctions. In the first chapter, it was pointed out that the introduction of increasingly sophisticated, particularly numerically (IT) controlled machines has vastly increased output per worker employed in the manufacturing process in many areas and of many products. It is often not necessary to employ such machinery, which is usually expensive to buy and run, with the same output being achieved ‘labour-intensively,’ through the employment of considerably more people at the local level. There are many examples where traditional working methods continue side by side with ‘capital-intensive’ methods such as those in the furniture and textile industries.

Box 2.2: Cigarette-making by Hand versus by Machine

A particularly striking example of the impact of machines in displacing workers is provided by cigarette manufacture. Local types of cigarette are manufactured and widely consumed in India and Indonesia, where they are known respectively as Beedies and Kretek. In India, these are rolled entirely by hand and one estimate put the number of (overwhelmingly women) producers at five million.¹⁶

Kretek, on the other hand, are produced both by machine and by hand. In 2007, one major manufacturer possessed 32 machines, each of which produced 2.8 million cigarettes per eight hour day (they could thus produce three times this amount if run for 24 hours). The same manufacturer employed at that time 58,000 women working in teams of two, producing between 3,000 and 4,000 cigarettes per team per seven-hour shift. A quick calculation shows that one machine can replace about 1,500 women. Production and maintenance of the machines also requires labour but this is created almost entirely in the northern countries where the machines are manufactured, whereas the women employed are an essential embedded part of the local economy, supporting local formal and informal services. It is important to note that the Indonesian Government places a higher tax on machine-made cigarettes than on hand-made ones as a disincentive to replace women with machines.

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A further important issue is whether jobs are temporary or permanent. In the long run, full employment implies that the majority of people are in jobs that need to be performed full-time in perpetuity. Public works programmes often involve a one-time increase in employment which, however, returns to the ‘normal’ level of employment in the construction industry when the works in question are complete. Systematically introducing labour-intensive methods into construction work through national or local policies, procurement procedures, etc. can, nevertheless, produce a permanent increase in employment in the infrastructure sector.

Of course the maintenance of infrastructure employs people on a permanent basis. Often, employment-generating projects are initiated following a crisis, where reconstruction or a backlog of maintenance is required. This activity is, therefore, not simply a question of creating jobs (or numbers of ‘full-time equivalents’) but is also used to train people in skills that they will be able to apply for life. This is also an important means of inserting or reinserting people into the local society.

¹⁶ www.aboutus.org/Bidis.net

Chapter Three: The Direct Role of Local Government in Employment Creation

3.1 Introductory summary

This chapter provides basic information on what local governments can do to generate employment with their own resources and activities. Although until recently, local authorities everywhere have had little or no remit to generate employment, they remain important employers simply by carrying out the functions assigned to them. These functions include procurement of many goods and services that are traditionally purchased via open tenders. An important function of local authorities, which uses a significant proportion of their budgets, is to provide and operate infrastructure ranging from roads to water supply, drainage and waste water disposal, solid waste management, and sometimes to building schools, health centers and other buildings and/or upgrading of informal housing areas. There are always choices to be made with regard to how these activities are to be undertaken, in particular how the building works are to be carried out. If attention is focused on how the labour process is organized, it can be seen that a significant difference in job generation can be made by choosing labour-intensive rather than equipment-intensive procedures.

Nevertheless, the constraints on local authorities and opportunities available to them in taking the right decisions are complex. On the one hand, there is a general worldwide trend towards the empowerment of local authorities through decentralization. However, this does not in any way give local authorities carte blanche to use their new powers, and an understanding of the complexities of how the local budgeting process works and how to use it creatively is of crucial importance. A major constraint in some countries are the restrictive rules put upon procurement, which makes it difficult for local authorities to use their budgets to achieve development goals that might include favoring the underprivileged and maximizing labour-intensity and local employment in carrying out public works. There are, nevertheless, ways in which local authorities can overcome these problems. In some cases, however, this will involve negotiations with central governments aimed at getting them to recognize local development to the extent that they change the rules. Often, municipal associations are in a position to coordinate such efforts on behalf of local governments.

3.2 Local Government Responsibilities

Local government in much of the developing world was inherited from colonial times. However, in some cases, there was no real local government at all, whereas in many cases, this denoted simply regional or local ('deconcentrated') offices implementing projects and programmes formulated, planned, financed and managed by ministries of the central government with very little local involvement. Such projects, once completed, were sometimes handed over to local governments to operate, manage and maintain. While these were often local governments in name, there was little by way of local power to take independent decisions and, until very recently, in many countries senior officials at the local level—governors and mayors—were appointed by the national government and senior local government staff were hired and paid by the central government. Since the 1980s, accelerating in recent years, there has, however, been a general trend towards decentralization, where central governments have handed over responsibilities and resources to local governments, usually in conjunction with democratization where, in the past, mayors appointed by central governments and local councils are now elected by the citizens.

It is useful to discuss, in a little detail, not just the meaning of decentralization and its benefits but also the problems that this has brought with it. Firstly, we can classify national governments into one of three types: unitary states (the majority in global terms) in which the central governments may hand powers down to local governments but can also take them back; federal states,¹⁷ in which the constitution apportions powers and responsibilities to different layers of government (generally central, provincial (regional) and local), which cannot be taken away by central government without constitutional amendment; and confederations, in which power resides with regional or local governments that lend powers upwards by agreement but that can remove these powers if they disagree with policies being pursued.¹⁸

The principle according to which recent initiatives in decentralization have taken place is ‘subsidiarity’. This is defined in the *European Charter of Local Government (1985)* thus: “Public responsibilities shall generally be exercised in preference by those authorities that are closest to the citizens”. The *European Charter* is generally seen as an important background document to the current global trend towards decentralization, reinforced recently by the dissemination of *Guidelines on Decentralization and Strengthening of Local Authorities* promulgated by UN-HABITAT.

In practice, there are many ways in which decentralization is being introduced in different countries.¹⁹ Unitary states formulate legislation, handing down functions that might be any mix including particular infrastructure sectors (for instance roads and waste management but perhaps maintaining water and energy supply in the hands of private, regional or national government agencies). Education sometimes remains a national responsibility but more usually primary and perhaps secondary education are decentralized, while tertiary education remains in the hands of the national government (or as proliferating private institutions). Health facilities are often also divided between local (health posts and clinics) and national—and significantly private—hospitals. Social insurance and other aspects of the management of social issues may remain national functions or may be decentralized. However, in many countries in low-income countries, the provision of social services is extremely weak, to the point of non-existence.

Two major problems have arisen in the course of the recent moves in decentralization. The first concerns the lack of preparation at the local level to take on responsibilities handed down by central governments. In a few countries, central government staff have been sent to localities to take with them their capacities to plan and manage services. However, a ‘culture’ of local self-management emerges neither spontaneously nor even with intensive capacity-building in the short-term. It is likely to be some time before the awareness and understanding of all that is involved in planning and implementing local development, from the level of mayoral and council decision-making, seeps through to the carrying out of technical tasks.²⁰

¹⁷ Including, as a selection from around the world, the former British colonies of Australia, Canada and the United States, India and Nigeria, as well as Brazil, Germany.

¹⁸ Switzerland has a 700-year experience of this form of government that is constitutionally highly decentralised and where public referenda play an important role in policy formulation and regulation.

¹⁹ The first comprehensive review of ongoing decentralisation and democratisation processes has been carried out and published by UCLG (2008).

²⁰ Such traditions did exist in most countries and cities before the advent of colonialism and ‘modernity’ that imposed central rule, removing local powers and, in a few cases, traditional

Unfortunately, lack of self-management traditions and local democratic awareness easily exposes local populations to the exercise of corruption on the part of newly empowered local governments, ranging from rent-seeking in the regulatory process (exacting bribes to issue permits) to overpricing of infrastructure contracts, where the excess is paid by contractors to local politicians and government officers and the simple misallocation of budgets to the benefit of particular individuals and interests. The emphasis today on the means to achieve ‘good governance’ focuses particularly on this issue with encouragement of public awareness and participation in local decision-making—or vigilance in scrutinizing the use of public resources—designed to ensure transparency and, in parallel, the development of a sense of public duty in local administrations. Secondly, in many, if not most, countries in which central governments have handed down responsibilities, there has not been a commensurate transfer of financial resources, with the result that local governments are not in a position to hire staff or invest in the infrastructure and services for which they are now being held responsible. Campaigns to ensure the adequate provision of financial resources to carry out municipal responsibilities effectively is a major concern in many countries and is strongly supported at the international level by UCLG.

3.3 Local Government Finance

Local governments obtain their financial resources from three sources.²¹ Funds can be raised locally through taxes, fees and fines. In few countries is this a very significant source of funding because the major taxes levied on local businesses, income and value added tax generally go directly to the central government, which then retains some, using this to finance national programmes and projects (that may appear in particular cities), and disburses some to local authorities. The most significant exception is where, in most developed but in fewer developing countries, property (land) tax is retained by local governments.

The proportion of government funds spent by local government varies between less than five percent (poorer countries but also some middle income countries in Latin America, as well as most CIS countries), through 20 percent, which is the Latin American and East European average, to 25 percent as the Western European average and over 50 percent in Switzerland and the Scandinavian countries. Decentralization is increasing this percentage but for the poorer countries this will remain low as a consequence of the general lack of funds with which to run the country.

In most countries the predominant source of local government funding is central government grants. There are various ways in which these might be allocated. On the one hand, block grants are disbursed, ideally according to a formula that means that the flow of funds over time is predictable. Unfortunately, in many countries the mechanism for disbursing funds changes frequently and, at worst, is determined politically thus favoring and disfavoring municipalities according to political criteria and making it difficult to carry out any longer-range planning because of arbitrary, year-to-year fluctuations. On the other hand, municipalities receive central government funding for particular projects that might be projects proposed, planned and managed by the municipality—that are then likely to be

decision-making mechanisms are still capable of being resuscitated albeit with a need to adapt to the complexities of present-day urban development.

²¹ Users of this Policy Paper wishing to know more about local finance are urged to obtain the *UCLG Policy Paper on Local Finance* (2006) from which most of the information in this section is derived. This can be downloaded from:

http://www.cities-localgovernments.org/uclg/upload/template/templatedocs/finance_policypaper.pdf.

put out to private tender—or projects proposed and implemented by central government and handed over the municipality to operate, manage and maintain.

In the 1980s, much hope was placed on the private sector becoming a source of significant funding for infrastructure through ‘public-private partnerships’ and the privatization of selected services. The experience has been very mixed, with some successes and some notable failures (World Bank, 2006a). While there was a rapid rise in such private investment in the early 1990s, this dropped off in the late 1990s and is now on a relatively modest scale. A large part of private infrastructure investments goes into communication infrastructures, and less than 10 percent has been in urban services, focused almost entirely on water supply.

An additional—in poorer countries crucial—source of funds for urban development are those lent by the World Bank, the regional development banks and some bilateral development agencies (notably JBIC, the KfW and AFD) that are active in most developing countries, lending money administered by central governments to develop urban infrastructure and other projects. It should, however, be noted that only a relatively small amount of ODA or lending is focused on urban development and this can be said to be the result of an inertia that still fails to recognize that, in general, the majority of the world’s population, and arguably the most serious developmental problems, are now in cities rather than rural areas. It is to be hoped that this problem will progressively be rectified in the coming years and that a greater proportion of these funds will be available for urban development.

Assistance has also been given to establishing Municipal Development Funds, which now exist in more than 70 developing countries. The intention is to reproduce the banking institutions established in the past in many northern countries, which played an important role in financing the development of effective infrastructure in the cities of the North. There has been much criticism of the problems inherent in running these recently established funds but it is to be hoped that experience and reform will eventually produce a sound basis for financing municipal development.

It has been recognized that decentralization normally requires the improvement of capacities both in terms of decision-making and in the formulation and execution of municipal projects and programmes. In the first instance, there are serious limitations to capacities in smaller municipalities in poorer countries to undertake any more than the simplest of administrative functions and there is certainly no capacity to analyse the options with regard to the use of municipal funds to maximize employment. Much external assistance is going into municipal reform and capacity building in the context of decentralization. Moreover, although many of the more sophisticated procedures may be beyond the capacities of a great number of local governments to implement, it is hoped that increasing numbers will, over time, be in a position to focus effective attention on the means to use municipal resources effectively, in order to increase employment.

Most developed countries, and some transition and developing countries, possess associations of local authorities that can be effective, firstly as the united voice of local authorities in the national political process, and secondly in providing various services to local authorities that might include training or group purchase of equipment. In many developing countries where these exist, they are not independent but rather created by, and dependent on, the central government. These can be of assistance in the servicing role but are used by central governments to send political and policy messages down rather than the associations formulating their own policies independently and negotiating these with the national government.

3.4 Local Authorities and Employment Generation

What local governments actually are and do has evolved over time. With the advent of urbanization in 19th century Europe, municipal government underwent radical change, starting from a loose set of tasks overseen by local elites, with functions undertaken in an uncoordinated way. With deteriorating environmental conditions, connected with increasingly serious political manifestations, new forms of technically competent and coordinated local governments came into being, with well-defined tasks focusing particularly on the development of effective infrastructure and with permanently employed personnel. By the end of the century, local governments had become powerful and well-organized entities that were now looking proactively at how to create efficient and attractive cities (Benevelo, 1967; Scott, 1971 Ch.1; Wohl, 1983, Ch.7; Meller, 2001).

Modern technologies and means to plan, build and maintain paved streets, reticulated water supply and sewerage, initially gas pipes and later electricity supply were all pioneered by municipalities, which eventually also became responsible for aspects of social welfare, schools, hospitals, housing, parks and gardens and the planning framework for ongoing development and redevelopment. Economic development, and the related employment, were not, however, part of this remit. During much of the 20th century, the world was divided sharply into two, with the 'West' leaving economic development predominantly in the private sector, with local government playing only regulatory functions and the Centrally Planned Economies giving responsibility for economic development to central government agencies. In neither case were local governments expected to take on any significant role in this respect to economic development or its corollary, i.e. employment generation.

Exceptionally, the problem of unemployment came into focus to municipalities during the 20th century, first through the Great Depression of the 1930s and then in the case of single-industry towns, notably those dependent on the coal and steel industries that experienced shocks from the closure of plants that employed a major proportion of the town population. The 1930s saw the first attempts at municipalities proactively connecting potential employers with the unemployed through employment centers, and public works programmes were initiated explicitly to provide employment while also improving the quality of infrastructure, albeit predominantly organized by central governments and undertaken in rural areas.

From the 1960s, some towns and regions experiencing employment problems established 'local development agencies,' which presently make up the membership of the European Association of Development Agencies (EURADA); today, many more towns and cities in the North maintain small 'economic development departments'. The approach adopted by these initiatives is overwhelmingly to 'market' the cities to attract inward investment, with an assumption that this will bring employment in its train. While as recently as the 1960s, this could be seen as a generally cost-effective way of creating local employment, as already noted, with increasing 'jobless growth' even inward investments bring relatively few jobs and can even destroy jobs in older, competing local industries.

3.4 The Role of Central Governments in Local Employment Creation

Although we are concerned here with what local governments can do to increase employment, in the first instance, central governments still have a very important role to play because they have macroeconomic instruments that can be applied with the effect of influencing employment levels in the economy generally, because they have the resources to generate programmes that will create employment—such as major infrastructure programmes—and, most importantly, because they can create the legal and financial context (through subsidies and tax regimes, etc.) that can either inhibit or facilitate local

governments to undertake projects and programmes with a major focus on maximizing the creation of employment.

In most countries, concern for employment generation and decent work is the responsibility of the Labour Ministry, which, through its connection to the ILO, will generally subsist in the 'decent work' policy framework commensurate with that of the ILO, as set out above. However, the effectiveness with which they can implement this remit is dependent on the degree to which the national government as a whole takes employment creation—and today, the growing employment crisis—into the center of the policy process and hence influences the policies and programmes of other government ministries and agencies.

Traditionally in most countries, the Labour Ministry concerns itself predominantly with regulatory processes, leaving the promotion of employment to other line ministries such as industry, public works and economic affairs and, where there are significant state-owned enterprises, the ministries and agencies responsible for overseeing these. A further key player in most countries is the Ministry of Public Works or its equivalent—where responsibilities may be allocated to several Ministries, e.g. those of Transport, Electricity, Water Affairs, Housing, Urban Development, etc. that build, respectively, roads, electricity infrastructure, water works, public housing, etc. and thus have responsibility for major construction projects that often include—prior to decentralization—the construction of urban infrastructure.

Insofar as these Ministries undertake projects and programmes themselves, it is certainly possible for them to consider alternative approaches and methods of achieving their ends and to select those that will be more 'employment-rich'. This is not considered any further here but is, instead, discussed in conditions of decentralization where local governments take on these responsibilities either simply in terms of administering the details of budgeted programmes handed down from the ministries or by undertaking programmes and projects that are wholly conceived, planned and implemented by the local authorities themselves.

In the first case it is necessary for the ministries to set a framework for the implementation of the programmes they hand down, which advises and facilitates the local authorities to undertake the work in a way that maximizes employment for a given expenditure. Such an approach might appear theoretical were it not for the efforts of the South African Government, which has put employment generation at the center of the policy process and hence developed a systematic approach with financial incentives to incite and assist local governments to use labour-intensive methods to implement centrally-funded programmes and projects

It should be noted that local governments in all countries (the exception being confederations) are constrained by regulatory frameworks administered by the central government or, in a few cases of federal states, by the provincial (regional) authorities. Regulations may already dictate how functions are carried out, in order to preclude independence in designing the implementation process to maximize employment. Such constraints are generally imposed through the process of supervising how local budgets are spent, which is an essential function of central governments as part of their responsibility to manage the national economy as a whole. The point here is to encourage efficiency and cost-effectiveness in the delivery of public goods and services and to eliminate (or minimize) the misuse of public money through corruption.

While the main item of municipal expenditure is generally the direct employment of personnel to manage municipal affairs and to carry out services directly (education, health services, urban planning and land management, building control, etc.) insofar as goods are supplied and services carried out by others—suppliers of office materials, school meals or

whatever, construction contractors, privatized waste management companies etc.—these are regulated by procurement rules and contract conditions.

Much attention has been focused on the regulation of public procurement as an essential component of local (and generally public) administration reform in recent years—where, in developing countries, public procurement sometimes amounts to over 20 percent of GNP—with the OECD and the World Bank playing major roles and the World Trade Organization providing a negotiation framework for establishing common rules between member countries. This has led to the establishment or—if already existing—substantial reform of specific institutions, namely public procurement oversight agencies, to supervise the formulation and management of public procurement contracts.

The approach taken in the context of liberal sensibilities is to call for open competitive tendering without minimum constraint on enterprises that might compete, and for larger contracts to be open to international tender. The World Bank provides procurement guidelines for the expenditure of funds, which it makes available and also advises countries on the adoption of similar guidelines for internal procurement processes (World Bank, 2006b). The importance of this issue here is to note that open competitive tendering, and especially international tendering, may preclude consideration of routes to local expenditure that are more employment-rich or oriented to achieving broader social and economic development aims.

Local authorities have little control over the contract conditions if these are determined within the framework of such guidelines and hence are precluded from spending funds in a fashion that will maximize employment. On the one hand, local authorities interested in using their budgets in ways that yield higher levels of employment need to negotiate—potentially through their national associations—for clauses to be included in the procurement regulations that allow and even encourage employment-rich routes to public procurement. On the other hand, public projects need to be understood more thoroughly not only as the provision of physical goods but also as a social process in which the creation of improved services and infrastructure improves the quality of the local social and economic development process. This approach is discussed in detail in Chapter Five. It should, however, in conclusion to this section, be noted that the final paragraph of the World Bank procurement guidelines reads as follows:

“3.15 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 (a) call for the participation of local communities and/or nongovernmental organizations (NGOs) in the delivery of services, or (b) increase the utilization of local know-how and materials, or (c) 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 and are acceptable to the Bank.”

As we will see in the South African case, this approach to procurement need not only cover small-scale projects among pockets of poverty but can be used to achieve broad developmental goals, as well as with respect to employment (Watermeyer, 2000: 230):

“...to foster creation of jobs, to promote fairer labour conditions, to promote the use of local labour, 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.”

3.5 Use of Local Government Expenditure for Employment Generation in General

In focusing on what local authorities can do to generate employment with their own resources, the first activity would simply be to make a detailed analysis of how the municipal budget has been spent in recent years. An analysis of the past three years should yield sufficient information to enable a general picture to be obtained. Expenditures need to be categorized in terms of particular goods and services.

In Chapter Six, we present a more complex methodology for calculating the local employment likely to be generated in various areas by alternative means of acquiring the required goods and services; this should estimate not only the direct employment effects but also the indirect or ‘multiplier’ effects. That is to say, when someone is employed locally, they, in turn, will spend their income on goods and services that may or may not involve local purchases. Furthermore, their work will require them to purchase materials and perhaps machinery, the production and supply of which also generates jobs. In the case of goods, this can make a difference as to whether they are manufactured locally or elsewhere in the region or the country, or even in another country altogether. Initially, however, we wish only to ask just two questions:

“Were the goods or services purchased by the local government in each category locally produced or produced elsewhere, and if elsewhere, could they be produced locally?”

If they were produced locally, who were the immediate beneficiaries in terms of employment and income?”

In order to know what to do with the resulting information, the local government needs to generate a set of principles and guidelines. In the first instance, such guidelines do not exist and it may be worthwhile from the outset, working closely with other local government, and, where relevant, involving local authority associations and/or the central government, to produce a common set for use throughout the country, possibly with variations to suit municipalities of different sizes that would have different scales of potential to intervene. There should be two parts to the guidelines, one presenting a methodology for analysing the goods and services, in order to ascertain their degree of localness and the other comprising a revised local set of procurement rules that set out the principles by which the tenderers or particular social sectors to be assisted through this programme should be selected and contracted.

In principle, it is to be expected that services purchased by the local authority can only be carried out using local labour. While on the surface this might generally be evident, as we shall see in Chapter Six, the way in which services are being provided, in terms of materials and methods used in their execution, might benefit local people greatly or might not benefit them at all, depending on whether they are, in turn, locally or non-locally produced. It is for this reason that the details of how the services are provided needs to be examined against the principle of the amount of local work generated.

Goods purchased by local authorities that are necessary to fulfill their various functions are generally supplied in accordance with the principle of cost-effectiveness: Who can supply the goods cheapest, in accordance with the specifications provided? The analysis of whether or not these are produced locally will enable an initial sorting and analysis to be made of the jobs created by the production of those goods produced locally. In the case of goods produced elsewhere, the question arises as to whether these could be produced locally.

Of course with many goods the amounts purchased are too small to be worth considering local production, unless there could be a wider market in the city or sub-region beyond the walls of the local authority. However, in quite poor cities it is surprising just

what examples can be found of goods produced locally, which substitute for imports; these range from packaging paper produced from waste (Kathmandu) and waste bins produced from used tires (Phuket), to the assembly or modification of vehicles to suit the needs of the local authority (Rio de Janeiro) and consumer products made from municipal waste materials (Cairo). By contracting to purchase goods and services from such local producers and suppliers, the local authority can ‘pump-prime’ enterprises that could eventually also serve the needs of private or community consumers throughout the city.

Should the local authority consider substituting the local production of goods purchased for imported goods supplied by the open market, it will clearly be necessary to address the question of cost-effectiveness. Local authorities—particularly in an age where municipal budgets are undergoing incipient decline—have to justify any expenditure in which a more expensive (locally produced) product is purchased in preference to a cheaper (imported) product that fulfils the same function. This could be justified within limits; however, on the basis that this is producing multiplier effects and induced employment in which it can be demonstrated that, in terms of the local economy as a whole, the product is actually cost-effective. Furthermore, as discussed in Chapter Five, there are social integrative grounds as to why local purchases, even if they are more expensive, are preferable where higher costs translate into higher incomes and capacity to invest.

It is, however, equally important to address the second question effectively. One of the basic reasons for the liberal insistence in current procurement rules on open tendering is to avoid ‘cronyism’. It is a long and widespread tradition that sees local authorities as vehicles used by certain individuals or families, or clans, to enrich themselves. In the past, this has been systematic, as local oligarchies ran municipalities as their personal businesses and it is sufficiently well known that in various countries on all continents, Mafiosi, or similar cartels, continue to run municipalities to satisfy their own pecuniary priorities, which are unlikely to coincide with the interests of the general public. It is, therefore, extremely important that in any move by the municipalities to turn from open tendering for goods and services, in order to expedite the principle of local employment, all initiatives taken should be transparent and continue to encourage (local) competition.

The second principle is then to favour production by disadvantaged groups, which should be defined within the second part of the document of principles, referred to above as a revised set of procurement guidelines. Many goods provided and services carried out on behalf of poorer local authorities, especially in Africa, can be undertaken by individuals and micro-enterprises operating in the informal economy who would not normally comply with the rules governing enterprises that may compete for public procurement contracts. It is clearly necessary for the local authority to ensure that defined quality standards are achieved, and the setting of these standards can be precisely the way in which decent and productive work is brought to those as yet unemployed or underemployed people in the informal economy. The emphasis on employing disadvantaged groups should also be more specific, favouring youth, women, people with disabilities, as well as other specifically locally disadvantaged people.

3.6 Employment-Intensive Infrastructure Development: creating infrastructures and creating jobs

Where decentralization has taken place, the provision and operation of local technical and social infrastructure usually become the major focus and activity of local governments. This then becomes the area where most local development budgets are spent and thus would be the major focus for any policy to enhance local employment through municipal spending.

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:

World Bank Press Release April 23, 2009 : 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.”

The OECD has estimated that an annual investment of US\$ 700 billion will be needed to develop infrastructure in the developing world over the coming decades. This is an increase from an average of US\$ 350 billion in recent years, which already represents almost half of IFI investment.

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 maximise 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).²²

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.

²² 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 have contributed to improved working conditions of informal traders.

Box 3.1: South Africa's Targeted Procurement Policy

The "Targeted Procurement" model developed in South Africa enables procurement to be readily used as an instrument of social policy by public bodies both on a large scale and in a focused manner, without compromising the requirements for a cost-effective and practical procurement system. On small contracts with a value below a defined financial threshold, direct preferences are accorded to targeted enterprises to tip the scales in their favour. On contracts above that threshold, bidders are required to compete on the basis of both what is to be constructed or maintained (the product) and the social benefits which target groups may derive in the execution of the contract (social deliverables). "Development objective" points are awarded to tenderers for incorporating certain (quantifiable and measurable) socio-economic deliverables, as specified in the tender, such as (a combination of):

- job creation;
- poverty alleviation;
- use of local resources (including local artisans, local materials);
- targeted groups of workers (e.g. unemployed, youth, women);
- certain categories of small enterprises;
- capacity-building;
- community-based development; and
- local economic development.

Contracts are then awarded to the most advantageous offer, based on a balance between the tendered price and the tendered social deliverables. Sanctions are applied to contractors who, in the performance of their contracts, fail to deliver their contracted social deliverables. 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.

Source: Kuiper, M. and van der Ree, K. 2005

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.

Therefore, as a first step, municipalities could examine their infrastructure investment policies to ensure an optimum use of local resources, including labour, in infrastructure investments and maintenance, including slum upgrading. These works would ideally 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.

Box 3.2 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 illustrate how employment concerns were integrated into slum upgrading programmes.

Both cases (Cato Manor in eThekweni/Durban and Vosloorus People's Housing Process near Johannesburg) had very positive employment spin-offs, mainly because employment creation was part of the vision from the start. Recognizing the opportunity to provide both housing and jobs, targeted procurement policies were adopted in Cato Manor: in their bids, contractors had to indicate the local content value, i.e. what value would accrue to labour recruited locally and to local enterprises/suppliers. The local labour requirements (80% of total labour) included a gender component and after initial resistance, teams of women were found to be more efficient in completing the tasks allocated to them than the male teams. After a while, groups of local artisans started to present themselves as emerging contractors and were given the opportunity to establish themselves through mentoring and performance-based selection (one house to construct in the first contract, then 2, then 5...). In Vosloorus PHP, local labourers worked in labour teams (combining skilled and unskilled workers) under supervision of emerging contractors from the community. Both contractors and workers received training financed by the Department of Labour. It was agreed that at least 30% of the workers should be women. In phase I, about 30% of the construction costs were paid to local labour (wages). In phase II, spending on materials was redirected in favour of local suppliers, increasing the local content to 60% of total construction costs.

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 G. and Aiello A. (2005)

The South African case studies in box 3.2 above show 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 have demonstrated 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 moves 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.

It is important to ensure that all partners are sensitised and trained in local resource-based approaches to public works contracting. 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, the Construction Industry Development Board (CIDB) of that country has produced a wide range of training materials and guidelines to help local authorities to consistently adopt labour-intensive methods in all their public works programmes.²³

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 has over the years undertaken four broad categories of employment-impact assessments.

²³ These Guidelines can be downloaded from: www.cidb.org.za

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 investment in infrastructure:

- Are 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. An example from Madagascar is below in box 3.3.

Box 3.3: Labour-intensive approaches are cost-effective

A study carried out by ILO using data from projects executed in Madagascar on road rehabilitation using labour-intensive approaches has shown that the labour-based option is 5 times less expensive than the equipment based option, while 42,7 per cent of the rehabilitation cost goes back to beneficiary communities in a form of wages and salaries, compared to only 18,6 per cent in the case of equipment-based works. Similarly, schools built with local building materials are half the cost of those built with prefabricated panels, and generate 3 times more employment. Furthermore, as the country is blessed with many granite deposits, paving is an excellent option for urban road and drainage construction/rehabilitation: it is about one-third cheaper than asphaltting, is more sustainable and less costly in maintenance, and two-thirds of the costs are returned to the local economy in terms of direct and indirect jobs created.

Source: Van Imschoot, 2007.

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).²⁴

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. This is a more elaborate tool which requires 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). Input-output matrices can be elaborated into 'Social Accounting Matrices' (SAMs), which focus not only on production but also on social transfers between the institutions, namely enterprises, households, and government. Although input-output matrices and SAMs work with monetary data, the employment dimension 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 of past programmes and may be used to simulate the impact, in particular on employment of future programmes thus facilitating policy choice.

In conclusion, 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.).

In conclusion, labour-intensive methods generally have an overwhelming advantage in terms of employment generation. In addition, they create employment where it is most needed and—insofar as these employ poor, unskilled workers—amongst the very population most in need of employment.

Municipalities that embark on a structured programme to maximize employment in the approach they take to public works may need to progress through a sequence of steps. A local policy on procurement, setting out the principles upon which tenders will be evaluated, may first need to be adopted. This may need to be negotiated with the central government, which, in all countries, oversees the principles upon which local authority procurement is organized. This would culminate in the adoption of rules that promote labour-intensive methods in carrying out public works and may, in addition, contain other developmental goals. Municipal staff involved in procurement may need to be trained in the new approach. A municipal working group could then need to review all current and planned public works projects and programmes, in order to ensure that these will be tendered according to the new guidelines. This might go beyond the immediate works themselves and also consider the supply of materials and components and whether labour-

²⁴ 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.

intensive methods of production can also be applied here. Some public works may be carried out by the municipality itself and the same rules should apply here. Finally, the revised rules should be built into the municipal or external procedures for monitoring and evaluating public works.

Box 3.4: Municipal efforts to create local employment in Osasco, Brazil

Decentralization has been the policy in Brazil since the 1988 Constitution and in the light of the growing employment crisis, some municipalities, particularly those ruled by the Worker's Party (PT), have been attempting to develop policies and programmes to confront unemployment and related social exclusion. The massive funds put into the National Growth Acceleration Programme (PAC) by the Federal Government are being used by local authorities to upgrade informal settlements.

In 2008, the Municipality of Osasco in Greater São Paulo had 167 slums housing some 200,000 people, almost 28 percent of the population. Once an industrial suburb, the city has suffered from economic restructuring and the programme has been seen as a means to generate employment while improving living conditions. Ten upgrading projects have benefited 7,500 families and triggered 1,000 direct jobs through community contracting.

However, federal legislation and highly complex tendering procedures are causing considerable difficulties for those local authorities wishing to use the PAC explicitly for employment and income generation, with bottlenecks and time delays that reduce the potential of the programme as a component of an explicit local economic development programme.

Source: Klink, J. (2009)

Today, it is widely acknowledged that the community level of infrastructure provision in the cities should be developed from inception to completion and thence operation, management and maintenance, with the full participation of the communities in which the infrastructure is installed. While past programmes of the World Bank, and others, to upgrade informal settlements focused almost exclusively on hardware provision, the prevailing opinion is that there is a need to integrate the intensive involvement of the communities themselves in the upgrading process, including both community contracting of physical works (Tournée and Esch, 2001) and social and economic development programmes, including land titling (Viloria-Williams, 2006).

Box 3.5: Community Contracting to install Basic Infrastructure in Iloilo, Philippines

In many cities, informal settlements exist in small pockets scattered around the city. This is the case in Iloilo in the Philippines, where the residents have been progressively upgrading their infrastructure, sanctioned and partly aided by their local *barangay* councils although the latter are not financially capable of providing much in the way of necessary infrastructure; this is, nevertheless, largely being done through their own organization and efforts. Assistance also comes from local NGOs and, in the case of Iloilo, the ILO has also had a presence.

The communities, 140 in all, are generally organized into home-owners' associations (HOAs) and a national law, together with an institutionalized Community Mortgage Programme, facilitates the purchase, by the communities, of their land in common. A typical such community, the 'Urban Family', comprising 21 households, decided through its HOA to make improvements to the access to, and through, the community and to install basic drainage. A four-person Construction Committee was appointed by the HOA and a bank account was set up to administer loan funding and householder contributions to finance the works.

The ILO funded an engineer to carry out the necessary survey and design options, which were then discussed by the community. Once the preferred arrangements had been agreed, a community contract was concluded defining what was to be done, by whom, and the cost of it all. The Construction Committee then hired the necessary workforce and purchased the tools and materials. The work was completed in four months. The community thus benefits from the local employment generated and from the improved access and drainage.

Source: ILO, 2008.

3.7 Concluding Remarks

The content of this chapter is important in indicating the possibilities that few local authorities around the world are currently aware of, namely that municipalities can make an impact on employment through their every-day activities of building the city. It is true, and should be understood by both leaders and functionaries in local government, that the chief aim of local government is to create convenient and congenial cities. However, better cities are not just physical objects; more importantly, they are places in which citizens can be employed productively and through this, gain an income that is an essential ticket to their ability to enjoy their right to the city. Maximizing employment through the intelligent use of the municipal budget is the first step that local governments can take along the road to understanding the importance of the need for employment among the population, and that they can make a significant contribution.

Promotion of employment-intensive infrastructure development on the part of municipalities should be seen as a pump-priming activity, a means to improving environmental conditions and a platform for other components of local social and economic development that are discussed in the chapters to follow.

Chapter Four: How Local Authorities Stimulate Employment Creation

4.1 Introductory summary

In the past, local authority efforts to generate employment have focused to a varying extent on attempting to attract inward investment, assuming that this will automatically bring jobs with it. This chapter discusses what is involved and the relative efficacy of this activity. The chapter then focuses mainly on the question of 'labour market intervention' that was briefly described in Chapter Two. Traditionally, it has been central government Labour Ministries, which have established local facilities in the form of 'labour exchanges' or job centres that bring people looking for work in touch with potential employers and vice versa. With advancing decentralization, this activity is devolving more to local authorities and national governments, as well as international development agencies, are assisting in establishing and extending the activities of such centers or in setting up related initiatives, in order to implement more active labour market policies (ALMP).

Particular emphasis is currently being placed on developing entrepreneurial capacities, responding to the absence of formal employers and the consequent growth of small and micro-enterprises. Thus much effort has been going into facilitating the formation and expansion of SMEs, creating a 'business-friendly environment,' in particular by simplifying the regulatory framework and supporting the provision of business development services (BDS). This chapter describes and analyses what is generally involved and the role that many local authorities have at the present time in providing or facilitating these developments. The chapter also focuses on social enterprise in the form of cooperatives and the social economy, noting that these are neglected areas upon which few local authorities are focusing although these are areas that they can also help to develop, in order to potentially generate employment and also address the need for the provision of improved social and cultural services.

4.2 Attracting Inward Investment

In developed countries, municipalities with a proactive economic development policy have, in most cases, focused major attention on attracting inward investment or on marketing the city, which, in some cases in the past, had enjoyed notable success in reviving the economies of depressed areas. As regards foreign direct investment (FDI) to cities in developing countries,²⁵ this policy has been pursued particularly through the establishment of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) associated with the 'offshoring' of manufacturing from the industrialized countries and more recently, also of services, notably software development and call centers. Here, there have also been successes, some of them quite spectacular; for example in China where, according to the National Development and Reform Commission, between 2000 and 2005, the city of Suzhou attracted \$2 billion of inward investment, with some 16,000 foreign firms focusing particularly in electronics locating themselves in the city.

²⁵ Of course, considerable foreign direct investment, particularly in Africa, goes to developments in the primary sector that are located in rural areas and are, therefore, of no interest here.

For a significant impact to be made in this market, it is very unlikely that local authorities will make much headway without the national government creating the policy framework and carrying out international marketing. In most developing countries, the establishment of SEZ/EPZ is also organized through the national government and local governments—usually on a regional basis, although this can also be by city—negotiating for such zones to be located on their territory. Some investors, however, prefer to locate themselves outside such zones and negotiate directly with local governments, albeit that larger investments are generally processed, in terms of licensing, by the national government.

The usual presumption is that it is good to have such investments in the local authority area as they bring economic activity and hence generate both direct and indirect local employment as well as revenue through taxes. There are, of course, also responsibilities in the areas of infrastructure provision—and there is also a need for housing for the workforce—which, in cities in many countries receiving such investments, are, unfortunately, inadequately prepared for the consequences. Sometimes, working conditions are bad and labour rights are not respected. Furthermore, even as they bring money into the local informal economy, such investments also attract the growth of informal settlements to house the workforce and those providing the workers with services, which can be a burden on the requirement for local authorities to provide the infrastructure. Finally, such investments are often volatile and when they close they can leave behind serious pockets of unemployment, as we have observed in Mexico in early 2000.

In practice, although most cities seek inward investments located within their borders, there are relatively few cities that have gained greatly by such investments²⁶ and without effective national policies that clearly set out how these investments fit into a coherent development strategy, the problems of attracting inward investment into the locality may well outweigh the advantages. In an era in which capital intensive investments bring few jobs relative to the size of the investment, local governments may want to tread carefully and not put all their eggs in one basket. Alternative approaches to employment generation exist that involve less investment but may generate more, and more sustainable jobs overall.

Where local authorities do, nevertheless, pursue this path to economic development, they should be aware of possibilities for creating linkages of industries attracted into the area to the local community with the local economy (the Costa Rican Government, for instance, has been relatively successful in this respect). Forward linkages include logistics, packaging, cleaning and security services where backward linkages can be more advantageous in supplying intermediary goods required for production. Sourcing locally has many advantages for multinationals and national enterprises, including those located in EPZs in terms of time or quality control. It also creates a more substantial employment multiplier effect in the local area and contributes to root manufacturing activities locally reducing the volatility of this form of investment. Close cooperation between local communities and multinationals (e.g. training of local enterprises) is the key to success.

To summarize the benefits and disbenefits to localities that need to be taken into consideration: income may accrue to the municipality (depending on the national fiscal regime). Skills learned by workers in the enterprise(s) may be spread to local enterprises helping generally to upgrade the local economy through the generation of local enterprises

²⁶ For an in-depth analysis of the direct and indirect employment impacts of inward investment in Costa Rica that has had a coherent and reasonably successful policy in this area, see Ernst and Sánchez-Ancochea (2008).

making use of the newly acquired skills. On the other hand, other local enterprises may fail as a consequence of upward pressure on wages and salaries that undermine the positive employment impacts of the inward investment. Furthermore, as already noted, the current global economic dynamic is extremely volatile, meaning that inward investments, even when seeming very solid, can come and go over very short periods thus leaving local economies that have oriented themselves and become dependent on these investments, in crisis.

Attracting inward investment of national enterprises is likely to manifest fewer dangers and should certainly, in principle at least, be more welcome as an important dimension of a local economic development strategy. Here too, local authorities need to make a considered analysis of the costs, as well as the benefits, particularly in terms of the net gain in employment and the likely sustainability of that employment. This question is further explored in Chapter Six.

Box 4.1: Msunduzi goes for Inward Investment

The report of South African cities noted that in contrast to the path-breaking efforts of eThekweni in addressing the problems of those working in the informal economy, the neighboring city of Msunduzi had put its major efforts concerning LED into attracting new formal investment and encouraging existing firms to expand. Starting with an Investment Conference in 2000, the municipality invited international, national and local investors to discuss the possibilities for locating in the city. Incentive packages were offered and an Investment Facilitation Committee established to smooth the way towards investment. A business expansion and retention programme and survey were undertaken, discussing future plans with all (formal) local enterprises.

The results were 'startling'; in 2006 alone, 40 new businesses were attracted to the city and 40 existing businesses decided to expand with the creation of some 4,000 jobs. The hitherto rising unemployment initially rate went into reverse. However, with a steadily growing workforce this had little impact on the numbers of unemployed. With little attention being paid to the conditions and problems of those working in the informal economy, local small industrialists did not feel the efforts to be particularly effective. While this certainly does not speak against the search for inward investment and formal business support, it is clear that this does need to be accompanied by other, perhaps quite radical, measures and initiatives.

Source: Robbins, 2009.

4.3 Developing Enterprise Culture

In the liberal world predominating today, and with the role of government being seen as creating the environment for enterprise and development rather than itself undertaking economic development, the presumption is that employment is predominantly created in, and by, the private sector as a consequence of entrepreneurial effort. Certainly, with respect to the informal economy in which, nowadays, the majority of people economically active in cities are earning their living, we are talking about an area of activity lying well beyond the realms of government intervention that is, in a sense, a component of the private sector. More conventionally, the private sector is seen as those enterprises that are officially registered and, as such, comprise the 'formal economy'.

In this context, the majority of effort currently being expended to stimulate the generation of employment is going into creating a business environment conducive to enterprise development and assisting in the formation and improvement of capacities within businesses. Local governments are known sometimes to have a rather hostile attitude to business, seeing their role as simply regulating business activity rather than encouraging it. Recently, however, this attitude has been mellowing into to a more business-friendly stance.

In engaging in these activities, many local authorities are undertaking numbers of initiatives aimed at reforming their own practices, in order to provide a business-friendly environment and then offering or stimulating various business services, ranging from

training and advice to the provision of infrastructure. They are joined, on the one hand, by local NGOs and enterprise assistance projects, including particular initiatives that are helping to generate local financing initiatives appropriate for small and micro-enterprises. On the other hand, there is a range of activities in this field that are being offered by international development agencies and organizations.

An important question that is generating much research but has not, as yet, come to any substantial conclusions (Wennekers and Thurik, 1999; Naudé, 2008) is whether entrepreneurship can be generated in particular countries and, if so, how this can be achieved; this question is especially important in the case of the transition and developing countries, which remain low on the scale of development and in which informal economies (or unemployment and underemployment) are growing.²⁷ Defining and creating a 'conducive business environment' obviously depends on the answer to this question. One approach, particularly motivated by the growing crisis of youth unemployment, is to be proactive and to build education on entrepreneurship into the curriculum of educational and training institutions at all levels and also to offer non-formal education that will promote a positive attitude to entrepreneurship as the foundation of a entrepreneurial culture.²⁸ This is generally practically oriented, involving, on the one hand, measures to improve the capacity of those who will enter the informal economy to improve the organization of their livelihood activities and, on the other, providing information that will open up the option of starting and running a business upon graduation.

Nevertheless, it has been deemed an important prerequisite for employment generation in both developed and developing countries, to work at creating a conducive business environment even before reaching any definitive answer to the above research question. There are, however, widely differing interpretations of what is required (White, 2004). The World Bank-based Group on Enabling Environment of the Donor Committee for Small Enterprise Development (DCED), which coordinates the efforts of some 40 development banks, agencies and interests working on programmes and projects of national and local government reform in the transition and developing countries, has given considerable thought to this. The areas of concern fall into three different categories of general issues, namely governance issues, the policy framework and the legal and regulatory framework (White, 2004, 20).

Much of this is concerned with reform at the national government level over which local governments have little influence. Nevertheless, there are actions on some of these issues that can be, and, indeed are, already being taken at the local level. These generally include municipal reforms aimed at more efficient municipal management and infrastructure provision. This is a key aim of City Development Strategies promoted and financed by the Cities Alliance, but this also involves other programmes of the international development institutions and programmes of central governments, in conjunction with legal measures of decentralization.

Where local government reform affects the business environment, this translates into the streamlining of regulatory procedures often referred to as the introduction of 'one-stop shops' for the issuing of business licenses, planning and building permissions and so on

²⁷ This concern harks back to early debates about development, especially Arthur Lewis and those preceding him such as the Austrian economist Joseph Schumpeter, who asserted that the emergence of an entrepreneurial class is a necessary foundation for an effective development process.

²⁸ In fact, such programmes have been introduced in many countries as documented and promoted by the ILO : see Haftendorn and Salzano (2003).

(see Box 4.2 below). These initiatives are designed to address two issues. On the one hand, the issuing of licenses very often involves corruption, in the sense that it is sometimes easier to obtain a license by paying those who issue the license more than by paying the official fee, and so there is a resistance inside the system to streamlining of this kind. This has been referred to as the ‘rule paradox’ (AusAid, 2000) where, quite broadly, each introduction of legislation and government rules becomes a new area for rent-seeking and has to be confronted as a socio-political problem and not just a legal one.

However, the main issue with regard to the improvement of the business environment at the municipal level is to reduce the complexity and length of time it takes in many countries to obtain the various permissions required to run a business. These procedures are seen as being a disincentive to would-be entrepreneurs to start a business and results in many small businesses remaining informal, with all the disadvantages outlined in Chapter Two. Experience shows that streamlining licensing and regulatory procedures does generally lead to greater numbers of business starts. However, there can also be an excess of such ‘deregulation’ meaning that care should be taken not to dismantle regulations that serve to protect groups or the public in general from anti-social practice (Berg and Kucera, 2008) or from danger, for instance in the case of building regulations, from unstable building structures.

Box 4.2: 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 involving the German technical cooperation (GTZ) and the Department of Trade, through its Small and Medium Enterprise Development for Sustainable Employment Programme (SMEDSEP). This resulted in the number of business registration requirements being reduced from 17 to five and the length of time taken to obtain a license being reduced from 17 days to just two. A 25 percent increase in the rate of business registrations was recorded in the following year. This then became a model progressively applied across other Local Government Units in the country.

Source: DCED, 2008, Box 2.

4.4 Business Development Services

Business Development Services (BDS) refers to a collection of tools with which would-be entrepreneurs are assisted to start or improve enterprises. Businesses require an enormous range of services that are obtained from other businesses, suppliers, outlets, banks, government agencies and many more sources. But they also need information, advice and training ranging from enhancement of entrepreneurial capacity through to how to run a business generally and thence in specific sectors. These kinds of service have been on offer in developed countries for many decades, mainly through government initiatives that are often directed from the central level but are essentially located at the municipal level. In some cases established businesses have launched initiatives to help start or expand small businesses.²⁹

More recently, particularly through the efforts of development agencies as ‘BDS facilitators,’ these services have been proliferating in transition and developing countries. In the first instance, these too were, and in many cases continue to be, run by, and certainly supported by, governments with strong NGO participation, usually with the initial funding and training being provided by development agencies. However, early attempts having

²⁹ This may simply involve local chambers of commerce or, more broadly, national initiatives such as, notably, the multifaceted programme of the UK organization *Business in the Community*.

generally been deemed relatively unsuccessful and, being expensive to run and producing relatively meager results, a process of reorientation is being called for, orchestrated as far as the bilateral and international agencies are concerned, by the CDASED.

The reorientation is primarily concerned that BDS should be offered to small businesses on a commercial basis, sometimes complementing and expanding upon any private services already on offer. There is still an important role to be played in BDS facilitation both by development agencies and governments, and indeed, as we shall see, local governments have a vital ongoing function to fulfill in this respect. A useful way to see the issue is that private BDS providers have an affinity with private small businesses that is far more effective in understanding, and thence generating and promoting, entrepreneurship than is the case of government-supplied business development services. Whether, how much and for how long financial support should be provided following the launch of BDS providers remains a much debated question (Harper, 2008).

Box 4.3: Entrepreneurship and 'Mandated Empowerment'

Much hope has been placed by development agencies that improving entrepreneurship and, more broadly, encouraging the poor to participate more actively in their own development through microfinance and beyond this 'participatory decision-making' will help to lift the poor out of their poverty. While broad overviews are not yet indicating any clear success of this strategy, first attempts at 'random evaluation' having throw us some awkward answers. Work carried out by Banerjee and Duflo (2008) concludes:

"...there is no evidence that the median poor entrepreneur is trying his best to expand his existing businesses, even if we take into account the many constraints he faces. While many people own businesses, this seems to be more a survival strategy than something they want to do."

And looking at micro-finance institutions, the researchers find that substantially fewer than half of the loans taken out are being used to start or further finance businesses but are, instead, used to pay for medical emergencies, family 'rites of passage' or household goods.

Rebecca Harding of Global Enterprise Monitoring notes that everywhere there is a mix of small enterprises that can more or less be classified either as those started by entrepreneurs ambitious to grow a business—whom she terms 'gazelles'—or people who start an enterprise as a survival strategy because they have no alternative access to income. In the developed countries, most small enterprises fall into the first category and in developing countries, most fall into the second.

As noted in the main text, the privatization of BDS is likely to work to the exclusion of the poor who will not be able to buy, or at a minimum will be discouraged from accessing, these services. This tends to make clear that any efforts to generate entrepreneurship and, as Banerjee and Duflo point out, the wider issue of 'mandated empowerment' are not in themselves targeting, or even oriented towards, poverty alleviation.

In practice, BDS consists of a number of different activities that may be offered comprehensively by strategically located centers or by different entities even within the same city; indeed, there is no reason why there should not be competing offers for the same service as this might even encourage greater efficiency and effectiveness. Services include: training, consultancy and advice; marketing assistance; accessing and using information technology development; the transfer and facilitating of business linkages; association and networking.

All of these services can be provided at different levels of sophistication. The main orientation is necessarily to provide simple and basic services relevant to the less-educated, and to youth, and also to help those in the informal economy to upgrade their capacities. However, the services should also be available to already functioning businesses to help them improve their efficiency and access new markets and, in general, to expand and become more robust; this has been shown to be one of the main routes to employment generation, at least in northern countries (Wong et al, 2005).³⁰

³⁰ Unfortunately, while there is much research and evidence of what works and what does not work in northern countries, there is very little in southern countries, meaning that working out what to do is generally guided more by faith than by hard empirical evidence of efficacy (see Wong, et al, 2005; Naudé, 2008; Acs et al, 2007). Information is necessarily available on repayment rates for loans taken out to start micro-enterprises and small businesses, which are generally very high, but very little is known of the survival rates of small- and micro-enterprises. In the UK, where 67% of businesses are one-person enterprises and fewer than one percent of enterprises employ more than 50 employees, recent survival rates of new small businesses has been around 90% after the first year, falling to around 70% by the third year. In 1997, 508,000 new enterprises were started, while 489,000 failed, and yet others ceased activity without deregistering (Rogaly et al, 1999). The current global economic situation is likely to accelerate small business failures considerably. The situation

BDS providers can obtain training with a number of international agencies that have developed training programmes to establish an infrastructure of BDS providers. The ILO Start and Improve your Business (SIYB) programme is arguably the most comprehensive in terms of content and focus and operates in some 90 countries.³¹ It is also the most relevant to addressing the needs of the urban poor and so helps to establish BDS providers relevant to the conditions of cities in low-income countries in which a major task of BDS is to help lift the quality of economic activity in the informal economy onto a more formal plane where there is also a greater likelihood of creating decent jobs. BDS providers may focus on more mature businesses and the UNCTAD EMPRETEC programme, active in 27 countries, is an example of a programme that provides a more sophisticated approach to training aimed at enhancing productive capacities and international competitiveness in existing formal businesses.³²

- *Training:* This starts simply by instilling business-sense and the basics of running a business. It can, however, be extended further into finance and marketing and then many detailed questions that help businesses not just to survive but to thrive
- *Consultancy and advice* is generally offered on an individual basis to help starters once the decision has been taken to start a business and then, once businesses are started, where these have encountered problems both of an everyday kind or where it is intended to extend the business or move into a new field of activity.
- *Business linkage, association and networking* may be assisted by BDS providers to help entrepreneurs find their way in the business world. This might be concerned with finding businesses with whom they can interact in terms of obtaining services they need to run their own business or joining support and networking organizations such as chambers of commerce and industry.
- *Obtaining finance* is not generally the role of BDS providers, although there are cases where government grants or loans are channeled through BDS providers. BDS providers can, however, guide new entrepreneurs towards financing institutions, either of the formal kind or in the burgeoning micro-finance sector (Brand, 1998).

Box 4.4: 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 centers. Initially, the various development agencies entered in a rather uncoordinated way but major programmes were organized respectively by the European Commission and a joint initiative between the ILO and UNDP. This sorted itself out where the former, with more of a focus on regional development, financed the establishment of centers in the regional capitals, and UNDP continued its earlier programme by financing what, by 2008, had become 43 business centers in smaller cities and towns under the programme title of Job Opportunities through Business Support (JOBS).

Falling initially under the Ministry of Labour and Social Policy, the Ministry of Economy and Energy became involved as the emphasis on the development of entrepreneurial culture, rather than simply alleviation of unemployment, became clearer. The core services of JOBS centers were established as:

the promotion of entrepreneurial culture among potential business people, helping them to become aware of the responsibilities, risks and potential of a self-owned business;

the delivery of locally-based comprehensive advice and support to potential and existing micro-small and medium-sized entrepreneurs (firm registration; promotion; facilitation of access to funding institutions; general office support, etc.);

accounting, financial and market consulting;

in the South is, however, too different to be able to assume similar rates of survival in the South as in the North.

³¹ http://www.ilo.org/dyn/empent/empent.portal?p_docid=SIYBHEAD&p_prog=S&p_subprog=BD

³² www.empretec.net/

business incubating in special premises;
 assistance to unemployed people to find jobs; job intermediary services;
 assistance to unemployed people to start their own businesses;
 vocational training for obtaining professional (re-)qualification for the unemployed or employed;
 the introduction of new management techniques and new technologies;
 the delivery of diverse training and re-training programmes and courses;
 the delivery of a wide range of ICT-based services, including training in ICT skills;
 the identification and development of project proposals, business opportunities, and business-to-business links locally, regionally and internationally;
 the implementation of a financial leasing scheme and a business start-up grant scheme;
 support dialogue at the local and national level, in order to strengthen public-private partnerships and improve the business climate.

This runs a little beyond what are strictly business services, overflowing into vocational training and including 'special projects' that have included tourism development, organic herb production and focused support for poorer groups—especially the Roma—moving in the direction of the Local Economic Development Agencies discussed further in Chapter Six, below. They have also provided finance in the form a competitive grant programme to support selected start-ups and a leasing programme to help small businesses finance the purchase of equipment, which overlaps with local micro-finance and banking services.

The JOBS Centers are constituted as non-governmental organizations, with, the board initially appointed to include local government representation, as well as that of local businesses and civil society organizations. The premises are lent by the local authorities and they each have a small staff of professional advisors and trainers. A central office was established at the outset, in order to develop the centers and, subsequently, a National Business Development Network established to represent their long-term interests.

The question is, what is going to happen to this network of centers as the project comes to an end? The local authorities have shown great interest in the initiative but, besides providing the premises, have not resourced the centers. The national government has shared the resourcing with UNDP and it is clear that the centers are far from self-financing at this point which means that they will require external financing for some time to come. In principle, the centers should eventually be self-financing. However, should this be attempted, it is clear that the initial poverty focus will disappear. It might be expected that the local authorities will take on a more central role—without necessarily altering the constitutional structure—by providing the resources hitherto provided by UNDP.

Source: UNDP, 2008.

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.³³

³³ For more information, see for instance *From BDS to Making Markets Work for the Poor* by Alexandra O. Miehlbradt 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>

4.5 The Role of Local Government in the Provision of BDS

As already noted, municipalities have an important role to play in business promotion even as the key promotional role is moving into the private sector in the form of BDS providers as commercial entities—that might be for-profit or non-profit entities—and national governments, and international agencies are playing a strong role in initiating and developing BDS capacities. Although the regulation of BDS providers may be a role the central government takes upon itself, with the decentralization process this role can be expected to be transferred to local governments, which will need to develop criteria and methods for monitoring and eventually evaluating the conduct and results of the activities of the BDS providers.

It is a basic principle of the CDASED, and of much of the international debate at this time on the provision of business services, that these should not be subsidized and insofar as activities are undertaken by BDS facilitators—be they international agencies or governments—to improve the capacities and effectiveness of BDS providers, that these should be of a limited duration and should be withdrawn once the BDS providers have taken on the improvements offered. However, it is also argued that there are specific areas in which BDS providers do need ongoing support, so that they can operate effectively. The most important of these concerns the enhancement of the capacity of BDS providers to serve the needs of the poor, who may never be in a position to afford the fees, or even the commission, of the BDS provider. Municipalities which might be provided with funds for this purpose from central governments thus need to have programmes that fund means-tested individuals to access particular services—e.g. training courses or sessions explicitly designed to bring isolated entrepreneurs into contact and possibly association—that might be delivered by private BDS providers. In practice, in many, if not most, countries in which these services are available, they are administered directly by municipal or parastatal outlets.

Box 4.5: South Africa - Small Enterprise Development Agencies (SEDAs)

In 2006, building on the Local Business Service Centers established by municipalities in the 1990s, the national Department of Trade and Industry, which wanted to ensure a common small business support platform and training network, financed the establishment of Small Enterprise Development Agencies (SEDAs) in urban areas throughout the country. Anyone can simply walk into any SEDA in the country and experience a common offering of services, although some are more elaborate than others.

The main focus of the SEDAs is in linking entrepreneurs to information—on training, finance, regulation and market opportunities, both private and public—to actually provide services including advice and training on business formation and business improvement, as well as to offer links to finance and infrastructure providers. SEDAs are not only passive responders to people who visit them but also develop proactive initiatives to reach businesses through outreach events and small business fairs, etc. The more proactive Municipalities such as eThekweni are able to use their own resources to 'piggyback' further outreach activities. The most common profiles of people visiting and reached by the SEDAs are:

People seeking to establish a business (micro-entrepreneurs) and wanting training or advice.

Micro businesses and informal entrepreneurs wanting to grow their business, access finance or access new opportunities (especially public sector tenders or relationships with private companies, e.g. in terms of informal distribution channels for larger corporations).

Source: Robbins, 2009.

Municipalities can also—and in many countries actually do—provide the infrastructure in which the BDS providers operate; this might include offices and rooms for training. Furthermore, these facilities can be connected with the activities of the local authority related to BDS such as the administration of unemployment benefits or the provision of other services such as where to access funding, either to start or to extend a business or for home improvements or energy advice for householders.

Premises for small businesses with services—access, water, sanitation, electricity, telecommunications, etc.—are also made available by some municipalities. These might simply be intended to facilitate and encourage inward investment. However, in many instances these are directly connected to the BDS services or even to universities, under the title of ‘business incubators’ providing subsidized or even free premises and possibly also grants or loans for equipment purchased by the new enterprises made available by the municipality; again, this is sometimes achieved with direct funding from central government. Clearly, there is competition to receive this assistance and municipalities will need strict criteria and transparent decision-making processes in the choice of beneficiaries, who will be expected to move into their own premises within a limited period of time. In developed countries, business incubators’ are particularly associated with the development of new kinds of business, often using or producing innovative and advanced technologies. These are less relevant for developing countries, where municipalities do not have the level of resources necessary to maintain these facilities and programmes.³⁴

4.6 Cooperatives

As noted at the outset of this chapter, we live in an age that emphasizes entrepreneurship and private initiative, where there is an assumption that this is the motivation of all productive activity and hence—unsaid but implicit—also where we should look for the generation of the bulk of employment. *Prima facie*, with the inexorable growth since the early 1980s in underemployment and the informal economy—which we may interpret as disguised unemployment—we might, by now, question whether this extreme emphasis is justified. An alternative focus that is showing itself to be particularly relevant to assisting people working in the informal economy is where individuals otherwise working alone come together to form cooperatives or other groups that help them to become more efficient—and, therefore, create more and better employment—and also to have greater strength to negotiate with local authorities to obtain relevant support for their activities.

Local authorities in Europe, insofar as they have been proactive in initiatives to generate employment, have tended predominantly to focus on the private sector in the ways outlined in the earlier sections of this chapter. However, there have also been efforts—generally undertaken through completely separate departments—to assist with the formation of, and to support the development of, cooperatives. Why this should be separate from BDSs that support small private small and micro-enterprises might not be obvious to many readers who might think of cooperatives as simply specialized forms of private enterprise. It is, therefore, necessary to explain a little about cooperatives.

Cooperatives are member-owned businesses. The simplest way to understand them is that 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*”. Cooperatives are guided by seven cooperative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community. The first four of these are core principles without which a cooperative would lose its identity; they guarantee the

³⁴ In 2005, incubator programmes in the United States supported 27,000 companies employing 100,000 workers and generated \$17 billion in annual revenues (see Knopp, 2007).

conditions under which members own, control and benefit from the business. The last principle, concern for community, recognizes that, unlike investors, cooperative members tend also to be members of a particular community. This does not mean that cooperatives are ‘social’ rather than economic, and can just be used as a tool of development. It is important to distinguish between the primary aims of the cooperative, which are to meet the members’ economic needs, by-products such as improved nutrition and increased capabilities, and aggregate effects in the wider society such as lower mortality rates or higher employment levels. There are four broad categories of cooperatives: consumer cooperatives, producer cooperatives, worker cooperatives, and savings and credit cooperatives including banks and credit unions (ILO, 2009).

The evidence so far in the current recession is that there has been an increase in the numbers of cooperatives being formed, and they tend to last longer than other types of business. Savings and credit cooperatives in particular, also known as credit unions or SACCOs, building societies and cooperative banks all over the world are reporting that they are still financially sound, and that customers are flocking to bank with them because they are highly trusted. Just as in previous recessions, we can expect an increase in worker takeovers of ailing companies. We can also expect an increase in the number of communities turning to cooperatives to safeguard their local economies. (ILO, 2009)

The most successful cases—such as the Rabobank in the Netherlands, the Japanese consumer cooperatives (described in Box 6.13) or the Mondragon cooperative commonwealth, where a whole city in Northern Spain is built on cooperatives—indicate that with the supportive framework, cooperatives can be an important and stabilizing factor in developing social systems and local economies.

What can governments do to help the employment creation process through cooperatives? The first step would be the realization that cooperatives have an excellent potential as a vehicle for improving economic activity amongst many, particularly those working in the urban informal economy. Local governments could identify a focal point for cooperatives and provide focused assistance. For instance, BDS providers could be trained to offer services specifically to the development of cooperatives with the aim of helping to bring together isolated actors in the informal economy to organize common purchasing, to upgrade their products and increase efficiency through encouraging members to play different roles that suit them best. In other words, local governments can play a similar role in encouraging the formation of cooperatives, and strengthening them, as they can in supporting other entrepreneurial activities and they may, somewhere along this route, find a far larger clientele than those seeking to start new private businesses. In doing so, local governments would need to keep in mind that, in general, cooperatives should not be over-regulated, and their essentially risk-averse nature should be understood.

Box 4.6: The Recyclers’ Cooperatives of Colombia

Recycling ‘waste’ materials is an old profession has existed in something like its present forms since the very beginnings of industrialization, and the consequent increase in ‘waste’ products with a significant value as resource, inputs back into industry. The organization of this industry has, however, generally been ‘informal’ in developing countries and in most countries those undertaking recycling are treated as pariahs, as suggested by the name ‘scavenger’ or ‘waste picker’ and sometimes come from distinct traditionally excluded groups.

This being the case, their presence in the streets and on dump sites has generally been ignored by waste management undertakings and periodic reorganization such as the closing of dump sites or the introduction of new technologies rarely has been undertaken in consultation with the recyclers. However, a significant income is being made and people are being kept in employment—in larger cities this may involve tens of thousands of families—through the recycling of waste and everywhere complex industries involving recyclers, middlemen and receiving industries have evolved.

Meanwhile, the recyclers themselves have become increasingly organized. Together with the recyclers of Brazil, those in Colombia have been at the forefront of this tendency, in part because discrimination went to extremes of ‘social cleansing’. It

seems that the first attempt of a recycling group to form a cooperative was in Medellín in 1962. Subsequently, this form of organization was adopted in other cities and it really took off in the 1990s, when the Catholic foundation *Fundación Social*, starting in the city of Manizales, organized the first national meeting of recyclers, helped to form a national association and initiated an advisory service to organize groups throughout the country into cooperatives.

This has enabled the recyclers to negotiate with local governments on improving their own conditions and also any improvements intended in the waste management system more generally under local ordinances and with formal contracts. Some cooperatives have also diversified into the processing of waste materials and won contracts to manage parts of the municipal cleansing service as a whole. In March 2008, the National Association of Recyclers organized the first international gathering of recyclers in Bogotá.

Source: Medina, 2007.

Cooperatives can have a wider outlook to that of a private enterprise insofar as they are also oriented towards the welfare of its members rather than simply profitability, and it is worth mentioning that this is precisely the difficulty of advancing cooperativism in a world in which aggressive competition is seen as a major goal of enterprise. And, by extension, cooperatives can be seen as part of what is increasingly being discussed under the title of ‘social enterprise’.

4.7 Social Enterprise

There is a general lack of agreement on any precise definition of social enterprise (Dees, 1994; Nicholls, 2006; Wei-Skillern et al, 2007). However, it has increasingly come into the debate on local development that there are many actors, ranging from conventional non-government organizations to quasi-private enterprises, which are being run with social objectives rather than the pursuit of profit as their primary goal. These might organize social services that are not covered by the public realm or bring together young unemployed people to organize activities for them that might eventually lead to work, or the organization of members of communities to create and operate community savings and credit circles.

Local authorities are seen as possessing a role here—as in the case of private business generally—not in undertaking social entrepreneurship but in encouraging and facilitating it. So far, the concept and initiatives identified have been overwhelmingly in developed countries. However, the main potential is to be found in developing countries, where there is a great need not just to encourage entrepreneurship but, one step earlier, to bring young people into situations where they are more socially and economically active or to create social services that are in great measure lacking and which government on its own does not have the resources to undertake. The support that local governments can give to would-be, or already active, social entrepreneurs is not very different from the support they can give to BDSs. It does, however, require a realization that there are individuals and groups in this area who need support and for local governments proactively to find and support them. In Chapter Six, we return to this theme under the title of the ‘social economy’.

Chapter Five: The Context of Local Employment Generation

5.1 Introduction – Overview

Having presented, in the last two chapters—and in some detail—various current initiatives by local authorities to combat the deepening employment crisis and generate employment, it is now time to take a deeper look at the whole problematic of growing unemployment and underemployment before embarking on the presentation of a more coherent and comprehensive strategy. This chapter looks at the crisis in employment as a result of a wider crisis in the meaning of development and what it is supposed to achieve.

The chapter thus enquires as to what is happening not just to the economy and employment but also to patterns of work and the role that work, or the lack of it, is playing in changing social structures. It analyzes cultures of work and asks the fundamental question of why work is necessary. Superficially, we need it to build our cities and maintain ourselves as a social and cultural enterprise. But working is also a basic mechanism with which to integrate people into society and also to realize themselves psychologically as individuals. In this context we need to take a new look at the question of skills—what is needed—and productivity not just as an economic variable but also as an issue in the wider context of what we want to achieve. The chapter thus ends by turning the spotlight around and discussing what work should achieve in terms of the ‘Good City’ and in terms of satisfying lifestyles.

5.2 Employment Crisis – Crisis in Development

The opening statement of this Research Report observes that we are in the midst of a growing crisis in employment. This is not new but has actually been advancing over the past three decades. Few believe that this is about to end and many believe, rather, that the growing global economic crisis, added to incipiently rising prices of food and fuel, will only deepen the employment crisis (Baker, 2008) and that the situation will require a radical rethink and radically new initiatives if it is to be reversed. In the first two chapters, we outlined some of the deeper causes of the employment crisis and in this chapter, we want to analyze in further detail, exactly where we stand today and what general goals we are seeking to satisfy when we speak of the aim of achieving high levels of secure employment.

In fact, the employment crisis can be seen more broadly as a crisis about what is meant by development. Crudely speaking, ‘development’ is seen, on the one hand, as a process of the accumulation of wealth and income and, on the other, as ‘human development’ that involves education, improvements in health and the opening up of choice in terms of lifestyles in a context of security. In the developing world this has—and often continues to be—referred to a process of ‘modernization’ that includes changes in employment structure, the urban transition and changes also in social structures and outlooks.

The fact is that the general goals of development, and particularly the means of achieving this, have altered greatly since the establishment of the international development machinery in the middle of the 20th century and it is necessary to review these as a prelude to considering the aim of full employment, as well as the context in which this might be achieved and the more general goal of development of which this should be an important dimension. To place this in perspective, it is useful to start by pointing out that the Universal Declaration of Human Rights (Article 23) stated *inter alia*:

“Everyone has the right to work, to free choice of employment, to just and favourable conditions of work...”

While this can be interpreted as meaning that everyone who wishes to work should be given the opportunity, rather than that governments have the duty to ensure full employment, Article 23 does continue to assert that everyone also has the right to protection against unemployment (Turnell, 2002). In recent years, the right to employment has not been honored by governments in the sense that a totally inadequate effort has been expended to achieve this, relative to what would have been possible, and by the end of this chapter, we want to assert that it should be a clear responsibility of governments, at all levels, to strive to deliver on the right to work as asserted in the UN policy documents discussed in Chapter One.

Before we discuss in any detail how governments, and in particular local governments, might be effective in delivering on this right, it is necessary to look in some detail at a number of underlying issues. These include first understanding how the current employment patterns found in urban areas evolved and the restructuring of social relations and expectations that have taken place both in parallel and in relation to this. This includes looking into ways of understanding the results, referring, in the first instance, to the meaning and experience of poverty not just as lack of money but also as a lack of adequate engagement in urban society as seen in terms of ‘social exclusion’. We also need to look at the broader problems at the levels of the individual, the local society and the municipality that arise from unemployment and underemployment. This brings us to ask the fundamental question: “Why work?” What are we trying to achieve through work and what do we mean by the exercise of skills and the achievement of productivity?

The second half of the chapter looks at work from the point of view of what needs to be done, by way of work, to create cities in terms of a sustainable environment and pleasant, efficient and enjoyable places to live.

5.3 Patterns of Work and their Relation to Changing Social Structures

We start by looking in a little depth at the changes that have been taking place in the world regarding what those who are working are doing by way of work. In Chapter Two, it was pointed out that, in terms of sectors, employment is generally divided into the three categories of primary (agriculture and mining), secondary (manufacturing) and tertiary (services) and that we have seen, throughout the 20th century, that the process of urbanization in the North was fuelled predominantly by the decline in employment in agriculture and the growth in manufacturing. Later in the century, we saw an increasing shift in the urban economy out of manufacturing into services.

In the developing world, urbanization is a more recent phenomenon and has more complex mechanisms underlying the trend, although the decline in the proportion of the global workforce working in agricultural is a clear component. At one extreme, mainly in Africa, as much as 80 percent of the workforce is still working in agriculture while employment in agriculture in Latin American has already declined to around ten percent, only a little higher than is found in the northern countries. However, even in the few countries that have been developing a strong manufacturing sector, this is nowhere becoming as dominant as it was in developed economies in the middle years of the 20th century, with employment in this sector incipiently declining, even here, and with manufacturing employment representing just a small proportion of employment throughout much of the developing world. The decline in agricultural employment is thus balanced by the strong growth in—mainly informal—urban service employment with, in some cities, a significant component of urban agriculture (mainly intensive horticulture).

Looking at current employment in finer grain statistical terms³⁵ the notable characteristics are as follows. In the mid-20th century in many industrialized countries, more than 30 percent of the workforce was employed in manufacturing. Today, in the once-dominant 'industrial countries—the UK and USA—little more than one tenth of the workforce is employed in manufacturing and nowhere in what are considered today to be the most industrialized countries is more than a fifth of the workforce so employed (Germany: 22.5%, Japan and the Republic of Korea: 19.5%³⁶). Only in some CEE countries is manufacturing employment significantly over 20 percent; however, it continues to decline. If just non-agricultural employment is considered, manufacturing employment in the developing world is around a quarter of all employment in just a few Asian countries (Malaysia, Thailand and notably Vietnam) but in general, manufacturing employs few people and the tendency has been for even this to decline.³⁷

Employment in construction has remained a relatively constant percentage of employment in all countries for many decades. This fluctuates between five and ten percent, very rarely exceeding one tenth of the overall workforce. Employment in related areas of transport and infrastructure operation and maintenance is similar in all countries, almost nowhere reaching ten percent of employment and in some developing countries being closer to five percent.

It can already be seen just how dominant service employment is becoming not only in northern countries but increasingly also in the developing world. To analyze this from the available statistics in terms of what people actually do is, however, problematic when it comes to cities in developing countries. Much of this employment is informal in nature and, as discussed in Chapter Two, the insecure, often temporary and part-time nature of this employment escapes the collection of statistics altogether. First, we shall discuss what statistical evidence there is and then we shall look at what this means in terms of actual work situations and incomes.

Public sector employment varies considerably between countries, depending, in part, on differing services carried out by governments in different countries. However, in most countries this is now well below ten percent of all employment. Employment in health and education has been rising in the developed countries and now provides jobs for around one fifth of the workforce. In developing countries, these sectors employ nearer ten percent of the non-agricultural workforce and in many countries, particularly the poorer ones, this is considerably less. In the North, the fastest growing employment sectors in recent years have been finance, real estate and business services, averaging around 15 percent³⁸ of the workforce.

In contrast, this sector employs less than ten percent of the workforce in CEE and CIS countries and less than five percent even of non-agricultural employment in developing

³⁵ The ILO collects and analyses employment data for all countries providing this and these data can be found on the web site Key Indicators of the Labour Market (KILM): www.ilo.org/kilm

³⁶ Even these exaggerate: where in the United States industrial services are contracted out, in Germany these are still undertaken within the enterprise so that a significant part of this 22.5% of the workforce is not actually employed in industrial activity but rather in a service activity *within* manufacturing enterprises.

³⁷ As a total percentage of the workforce, including agriculture, manufacturing employment is little over 10 percent, even in these countries.

³⁸ According to the UK Employment Department, this sector employed in excess of a quarter of the UK workforce in 2006.

countries. Commerce, including wholesale and retail, restaurants and hotels, provides employment for around 20 percent of the workforce in the northern and CEE/CIS countries. Generally, in developing countries this sector provides more than 20 percent of non-agricultural employment covered by the statistics and in the poorer countries this can exceed 30 percent.

We now focus on what this means in practice for livelihoods and social formation where we immediately see that the statistics hide far larger differences between the developed and developing countries. We need not discuss the income from farming in any detail, except to say that whereas in the richer countries farm incomes are, on the whole, in line with the incomes of urban employees—and often at relatively high levels—in the developing world, traditional farming is predominantly a subsistence enterprise with some wage labour in producing for urban and international markets, virtually all yielding very low incomes, much of these below the poverty line. In contrast, as discussed in the following chapter, much urban agriculture is organized by middle class citizens, sometimes as an income supplement and sometimes as an enterprise connected to urban food markets (ETC, 2003, 8).

The effort being expended in manufacturing in the North is now almost entirely by machines³⁹ with few members of the workforce now undertaking manual work ('the end of the working class'). The machinery itself is manufactured by machines, designed and programmed by an IT workforce, maintained by skilled engineers and administered by more or less highly trained staff. The relocation of northern manufacturing to developing countries has, in some cases, brought these methods with it (remember the case of the cigarette manufacture described in Chapter Two) but in other cases, even within the same industry, labour-intensive processes continue to be applied in factories, which can employ many thousands of semi-skilled workers, who are often trained within a matter of days in the factory.

The pay scales as between employees in manufacturing in the developed and developing world are also radically different, with predominantly relatively high wages and salaries in the developed world⁴⁰ and pay for most of the manufacturing workforce in developing countries being at, or near, the minimum wage. Indeed, a significant proportion of this work, notably in the clothing industry, is 'put out' often being carried out in households, mainly by women. This is insecure and poorly paid work and lacks any social or workplace protection, with the companies also being relieved of their duty to provide work spaces.

Government employment in the northern economies, including work in the health and education sectors, also brings in good-to-adequate incomes, even if much of the clerical and functional service work remains low on local pay scales. In the developing world, with the exception of high-level bureaucrats and professionals, pay remains low, with large numbers of employees augmenting their pay through additional work in the informal economy.

Looking across the range of commercial employment, which, as noted, is growing everywhere to become the major employment sector, we see a very wide range of incomes. In the richer countries, these are amongst the highest, particularly in the fast-growing sector of finance and business services and proprietors and senior staff in retail, restaurants and

³⁹ In most cases fuelled by non-renewable energy resources, thus posing a sustainability problem.

⁴⁰ This does not mean that there is no residue of low pay in some manufacturing industries. However, poverty in the North is mainly associated with work in the service industries and with outright unemployment.

hotels can also expect higher wages and salaries. At the same time, the latter sectors offer very poor pay to large numbers of workers, often those in insecure jobs, who would, in the past, have comprised the industrial working class. Even these positions, however, generally pay considerably better than their equivalent in developing countries.

It is this burgeoning commercial sector—providing a wide range of services involving mainly the poor serving the needs of the poor—that is coming to dominate the urban economies and landscapes of the developing world. While performing a vital redistributive function in the local economy it does provide very inadequate incomes and precarious livelihoods that are a major characteristic of cities; this is visually evidenced by informal street trading and informal settlements that this population builds to accommodate itself. Higher pay is commanded in the relatively small formal commercial sector by proprietors of businesses and also by senior employees of certain subsectors, including finance and business services and, in a few countries, by a significant tourist sector.

5.4 The Culture of Work as Social Relations and Process

So far we have discussed two key mechanisms that have contributed to the employment crisis, namely technological change and the international policy framework. However, there is a third dimension that may also help to explain the situation and also provide some further clues as to how this might be overcome. There has, indeed, been considerable debate in recent years concerning social attitudes and problems that are both cause and consequence of the employment crisis.

If we look back over the history of development in the North, as industrialization deepened there was a great hope, perhaps even a presumption, that there would be less need for particularly hard, manual work and hence more time for leisure pursuits.⁴¹ Throughout the North, in the decades following the Second World War, average working hours did diminish systematically until the end of the 1970s. Then, starting in the UK and followed soon afterwards by the USA, working hours again began to rise and by the late 1990s, this trend had become general across the North.

What is striking about this is that, as noted above, this was not a question of problems in supplying physical resources and products but rather, to a growing degree, questions of administration and services certainly not all of which lay at the center of what might be considered to be socially useful work. At the same time, income differentials grew and, coupled with a growing frailty of the national welfare systems, a discussion arose concerning ‘social exclusion’ and the creation of an ‘underclass’ in spite of continuing economic growth and the general emergence of ‘affluent consumer societies’. It was also noted that the concern for social and economic justice that had been an important dimension of political life following the Second World War had waned progressively. The individualistic outlook that is an essential corollary of a liberal perspective on life has opened the door to a growing acceptance of economically unequal societies. Competition came to be seen not only as good but also as an essential attribute of a healthy economy, although it did ignore the social consequences.

Neither the transition countries nor the developing countries shared this history but came to it, rather, in the first case as a consequence of the collapse of the communist system and, in all cases, through globalization, both in its economic and—particularly via the

⁴¹ The following paragraphs borrow from a more detailed discussion in Dore (2003).

spread of television even into the most distant villages insistently influencing values—its cultural manifestations. While the transition countries industrialized along their own route, the history of industrialization was, with very few exceptions, not part of the cultural inheritance of developing countries. Urbanization in this area has to be seen instead as a manifestation of the abandonment of traditional rural culture and—to an extent—also its values, with the populations accommodating themselves to the realities of urban life with diminished human, and often also physical, resources.

Rural-urban migration sometimes has a dimension of escape from problematic rural social relations and/or poverty into looser social relations fuelled, in part, by the hope of benefiting from the fruits of modernity but, in reality, only tenuously served by it (Wolfe, 1996, Ch.5). This is overlaid by small—more so in Africa and South Asia; less so in Latin America and East Asia—‘modern’ middle and affluent classes who, through their aspirations, lifestyle and work patterns, organize the ‘formal’ side of urban life.

Once, during the 1990s, growing poverty amongst these urban populations—and also of the remaining rural populations—came to be accepted as a problem of failing development, and so the development institutions came to focus on this and many insights were achieved regarding the outlook, attitudes and circumstances of these populations. Special mention should be made of the World Bank study *Voices of the Poor* (Narayan, 2000), which, following large numbers of meetings and interviews, documented how the poor understand their situation.

An important line of argument, and related initiatives, designed to combat this poverty has been the ‘asset-based’ approach to poverty reduction (Moser, 2007). This identifies the capacities, in terms of knowledge, capabilities and social ties, as well as in terms of physical assets and how these can be accessed and accumulated as a route out of poverty. While recognizing ‘a job’ as being a key asset (Moser, 1998, 4), this approach does, nevertheless, run the risk of seeing the poverty problematic in too concrete and economic a fashion; in the extreme case, this could define poverty simply as a question of earning fewer than one or two dollars a day. This can easily overlook the complexities of poverty as an issue of social interaction in a context of the loosening of embedded traditional value systems (Beall, 2002).

An alternative approach to understanding the problematic of poverty, and with it unemployment and underemployment revolves around the notion of ‘social exclusion’. This has become an important angle from which to view particularly long-term unemployment in Europe, with various national initiatives and European Union support for combating social exclusion. In the European context, this focuses heavily on social contextual problems faced by the long-term unemployed and how these might be ameliorated to enable the ‘reinsertion’ of the excluded into society, with secure employment serving as a foundation for this.

The term ‘social exclusion’ is sometimes used loosely in the context of developing countries as being synonymous with informal living and economy. While this might help to indicate the problematic side of informality as a moral issue, it is not particularly helpful in analyzing the problems of the poor. Whether, and how, the concept might be useful in the context of cities was the subject of a major enquiry by the ILO (Rogers et al, 1995; Figueredo and Gore, 1998).

An initial problem here is that even within Europe, basic concepts of the relationship between the individual and society differ—including the French concept of Republicanism, the Anglo-Saxon notion of liberal society and a social democratic ideal—and hence it would be highly likely that non-European societies would possess yet other models that might render the concept of social exclusion irrelevant. The ILO study explored how the notion might be applied in a number of different transition and developing country

contexts, in order to arrive at a flexible interpretation with potential applicability to many different kinds of society.

The ILO STEP (Strategies and Tools against social Exclusion and Poverty) programme translates the findings of the studies with a key focus on finding ways to extend social security systems as a key dimension of social (re)insertion. In the following chapter, we pick up the notion of social exclusion again as a key concept to help develop a strategy through which the path to full employment might be trodden.

While the question of social exclusion focuses on the problem of individuals failing to recognize themselves, or be recognized, as effective members of the wider community, understanding the personal stress that social exclusion, and more specifically unemployment, can have helps us to understand the urgency of the quest for a society that is capable of offering decent work to all who wish to work.

There can be little doubt that insecure employment situations accompanying urbanization fuel both social and psychological stress and dysfunctionality. The link between unemployment and underemployment and psychological stress is well-studied in the North (Sinfield, 1981; Whelan et al, 1991, Goldsmith et al, 1996; Dooley and Prause, 2004) and in Japan, where a close correlation has been found between the suicide rate and the recent growth in unemployment (Inoue et al, 2007).

There has also been some focus on the link between the huge increase in mortality in Russia and the collapse of Communism and, with it, the economy (Shkolnikov et al, 1998). The psychological stress of unemployment and underemployment has, however, been the subject of few studies in low-income countries. Nevertheless, what evidence there is suggests that this is also a factor, seemingly more so among the ‘modern’ classes (Gonzo and Plattner, 2003; Singh, 2006), perhaps as the inheritance of northern cultural attitudes to work.⁴²

The impact that high unemployment and underemployment has had on local authorities is of some interest to this Report. This is a difficult question to answer simply because local authorities in different countries have very different responsibilities. Here are some situations:

- In almost no countries are local authorities directly responsible for the payment of unemployment benefits. However, almost everywhere, local authority income is linked to local businesses and lack of employment is generally indicative of weak economies and hence low incomes with which local authorities can carry out their responsibilities.
- In the North, local authorities are usually responsible for accommodating the homeless and for the provision of other social support facilities the need for which is a consequence of poverty, which can certainly, in part, be attributed to a lack of employment.
- Linked to this is the need, where there is a significant population of the socially excluded, for local authorities to expend resources in exploring the extent of the problem and devising programmes to access and assist the unemployed and underemployed.
- Insofar as security in cities is threatened through increased crime and violence attributable, in part, to the lack of income and employment, this results in local authorities, at the very

⁴² Although the problems surrounding unemployment and underemployment are little discussed in *Voices of the Poor*, there is a short expose on psychological stress and household violence right across the transition and southern world arising not just from unemployment but also from a significant change from men to women as the main family breadwinner (Narayan, 2000, 182 et seq).

least, working closely with the security authorities (in some countries these are under the direct responsibility of municipalities) to control the situation and this will probably mean investing municipal resources in hardware and software security measures.

- Increasing crime, in turn, discourages business that might otherwise settle in the city, as well as tourists and other short-term visitors, all of whom bring an income to the city.
- Local authorities in the poorer countries do not have the financial or professional resources to mount programmes to assist the unemployed and underemployed who are increasingly finding their own solutions in the informal economy; increasingly in many cities, this involves resorting to crime which, again, local authorities are failing to bring under control.

In short, the employment crisis cannot be dismissed by local authorities as lying beyond the scope of their responsibilities. Policies and programmes aimed at increasing employment are in the direct interests of local authorities as measures to reduce problems of social and individual stress and security problems, as well as increasing local economic benefits in general and, more specifically, their own income.

5.5 Why Work?

Prima facie, with a dwindling need for work to produce and distribute everything we need by way of physical resources, why should working hours not continue to decline and more time be spent in leisure activities? There has been much discussion of this, attempting to challenge the ‘work ethic’ and competition for wealth, where the social benefit of increasing amounts of what, today, passes for employment (managing money and encouraging consumerism) can be called into question (Rifkin, 1995; Gorz, 1999, Beder, 2000).

A well-worked theme proposes a ‘social wage’ that would be paid to everyone to ensure that, insofar as people accept a relatively modest lifestyle, nobody is forced to work for a living. It is also forcefully argued that governments would benefit directly by taking on the role of ‘employer of last resort’ to provide work for all those who are unemployed or underemployed (Mitchell and Carlson, 2001). India is the first developing country to have adopted (in 2005) a National Rural Employment Guarantee Act which stipulates that the State will provide a legal guarantee for at least 100 days of employment on asset-creating public works programmes every year at minimum wage for every rural household." Since the inception of the programme in February 2006, it now operates in all of rural India, covering 615 districts. In 2009, NREGS provided work to 45.1 million households, creating 2.1 billion person-days of employment. Central government is responsible for the payment of wage costs in the scheme, but work undertaken is identified and planned at the level of the local state. State governments that are unable to provide work within fifteen days are responsible for paying the unemployment allowance, with no contribution from central government. This creates an in-built performance incentive for state governments to develop a well-coordinated approach to ensure a regular supply of employment in accordance to the demand. A social audit undertaken of NREGA in Tamil Nadu in 2007 shows that the programme has been successful in stemming rural to urban migration. The idea of expanding a form of employment guarantee to urban areas is now also being explored in some States.

As specified at the outset of this Report, it is clearly anomalous that there is so much unemployment and underemployment in a situation where so much work still needs to be done and this provides the broad context for the proposals made in the following chapter.

Before making any extended and coherent proposals aimed at achieving full employment, it is, however, necessary to answer the question posed at the outset of this section, namely: “Why work?” Here, we are proposing four basic reasons why people work and why work is needed (Wolfe, 1996, 174 - extended):

1. Work is necessary—even if ultimately considerably less might be needed in future than today—to produce goods and services and, through this, for people to perform the social roles valued by society.
2. In the last section of this chapter, we discuss what is needed to produce a reasonable life in a well-functioning and pleasant urban environment in physical and organizational terms. Well-organized, decent and productive work is necessary to achieve this.
3. Work should give individuals and families access to adequate incomes thus enabling them to satisfy their needs and, within limits, their desires.
4. People at work should be able to expect a reasonable income in terms of what this can buy by way
5. of access to life resources and services and a reasonably stress-free and enjoyable life available within the city in which they live.
6. Work should enable people to enter into relationships with the social order, interpret personal interest in its maintenance or transformation, associate themselves with interest groups and acquire organizational ties.
7. All work, even when carried out in the context of a one-person enterprise or involving activity in relative isolation, is ultimately a social activity and, for most individuals, the work environment is one that provides structure and structures beyond the family and immediate community, connecting them meaningfully into the wider social process.
8. Work can and should meet psychological needs for meaningful activity, self-realization, creativity and recognition in support of the workers' families and/or wider group.
9. As noted above, unemployment frequently results in psychological stress and feelings of worthlessness and meaninglessness and work should be universally understood by those in a position to provide it directly—employers—or indirectly—governments, civil society organizations—not just as a social service but also as a personal psychological service.

5.6 Skills and Productivity in the Urban Economy

As an addendum to this discussion, when looking at the problematic of unemployment and underemployment in developing countries, it is necessary to refer to the issues of 'skills' and 'productivity'. This is because it is widely asserted that the problem for the poor working in the informal economies of cities is that they lack skills and that their work is of low productivity. We might say that rural-urban migrants lack skill in the context of work needed in the cities, their previous rural skills no longer being relevant (Hobart, 1993).

However, it is also evident that workers in the informal economy can go through a series of 'careers,' as they respond to changing circumstances in the urban economy,⁴³ indicating that they are certainly willing and able to learn new skills, if only the opportunities would arise to provide them with work requiring whatever skills.⁴⁴ Training facilities that would help to develop the skills are often available but a common problem is the lack of opportunities for graduates who, without job offers, will end up in the informal economy, their skills wasted (Box 5.1 below). It would seem rather inadequate to suggest that they form a micro-enterprise to market their skills without there being any initiative at

⁴³ See longitudinal studies of poor urban communities carried out respectively in Jakarta (Jellinek, 1991) and Guayaquil (Moser, C. 2009)

⁴⁴ To underscore this point, it is necessary to point out that many high-paying jobs revolve around 'skills' that are easy enough to acquire but are not accessible to the poor because of entry conditions that require an investment that they cannot afford. The problem here is more to do with the fact that the demand for these jobs is relatively small. Were it to expand greatly, then training would surely become available and candidates would quickly materialize to take up the training.

a broader level to provide structure to the local economy and consumption patterns that will demand the product of these skills and encourage those wishing to enter the labour market to develop these skills.

Box 5.1: 'Skills Mismatch'

The case studies produced as background to this Research Report raised the issue of 'skills mismatch' whereby there are high unemployment and underemployment rates but also high numbers of formal job vacancies (Robbins, 2008; Gonzales, 2008). This is, in the first instance, put down to an excess of 'unskilled' workers seeking employment and an undersupply of 'skilled' workers.

In support of this interpretation, the two local governments researched in the Philippines lamented the low rate of high school completion in a country in which a high school diploma is often the minimum requirement for a job application. Both local authorities are thus making strong efforts to improve the educational offer with grants and in both cases establishing their own university/vocational training establishments where every effort is made to orient the curriculum towards training in the skills requested by local businesses.

At the same time, however, the Medium-Term Philippine Development Plan 2004-2010 noted:

"Most of the unemployed during the period were better educated than the employed workforce. A majority of the unemployed had at least a high school education (42.6%) while those with college education accounted for 34.3%. The incidence of unemployment also tended to increase with the years of education. In 2002, only 6.7% of those with at least elementary education were unemployed followed closely by those without formal education (9.3%); with at least high school education (13.2%) and with college education (15.4%)."

It would appear that the 'mismatch' is not just a question of skills in the sense of capabilities but that there is also a dimension of expectations and aspirations. At the 'bottom end' there is little expectation of entering formal work situations, this being an attitude that undermines the ambition to learn and one that finds the 'informal' world more comfortable for all its precariousness.

At the other end, those privileged and ambitious to complete their education—who are generally able, and even encouraged, to study what they would like to study and thence do what they want to do rather than designing a career path—are, after their education, disgorged into a world that is uninterested in what they have learned and simply wants particular (perhaps boring, repetitive maybe arduous) work to be done, at pay levels that the educated people find is not worth the effort. In the Philippines case this leads to significant numbers of the educated people leaving the country to take up employment below their educated status but paying more than they can expect at home.

However, there are also genuine skills mismatches that come from the rapidity of economic change. For instance, the Philippines has become a major target for call centers as a consequence of the widespread knowledge of the English language. These now employ over a million Filipino workers. However, increasingly, other languages are required and training in these languages has lagged behind demand, partly because language teachers find working in the call centers themselves more lucrative than teaching the languages!

Work in the informal economy is also seen as being low in productivity. It is true, for instance, that street-sellers often sell very little over the day, sometimes in spite of being at work for long hours. Many working in the informal economy do, however, produce a lot in terms of the common definition of productivity, particularly in serving the needs of the poor but are, nevertheless, regarded as unproductive because their work does not earn them very much.⁴⁵

Economists link their definition of productivity to the concept of added value. This means, for instance, that a vendor selling meals in the streets of Jakarta, while she might actually serve more people than the expensive restaurant outside which she is located, is seen as less productive as a consequence of the cheapness of the meals she serves. According to this definition, the vendor would be deemed to be more productive if the same

⁴⁵ For an in-depth discussion of the difficulties of defining and understanding productivity in the context of poor economies, see ILO (2001).

meals were being sold at a higher price (a greater difference between the cost of inputs and the price charged for outputs).

However, she would lose her clientele as a consequence of their not being able to afford the meals or because her neighbour is selling the same meal at a cheaper price. While there might be an argument about ‘poor productivity’ based on the poor quality of the cheap meal, even this might not be valid since the cheap meal has similar ingredients and satisfies the nutritional needs (and probably also the enjoyment) of the poor client just as well as the expensive restaurant satisfies the needs and tastes of its rich clientele. In common language, this woman is highly productive!

This argument can be extended and applied to much of the difference between the lives of the rich and the poor in low-income countries. And we have to look wider to see where the problems of putative inadequate skills and poor productivity lie. The world in which the urban poor are living is vastly *over-productive* in the sense that it supplies ready-made, most of what in the past, required work to produce locally. Indeed, it supplies much more in terms of those consumer products and foods that were simply not available at all in the past (Beder, 2006).

Illustrating this further, the influx of second-hand clothing into Africa in recent years has been recognized as having put large numbers of local tailors out of work⁴⁶ and has resulted in this clothing being sold into a consumer environment that is over-supplied with vendors and in which intensive competition results in a ‘race to the bottom’ where vendors add extremely little to the price at which they buy the clothes.

It is argued that the loss to tailors is counterbalanced by the gain to traders. While there is a lack of empirical evidence to prove whether this is true or not, the point is that the change involves a loss of skills and also a loss of local control over economic activity with no ability to respond meaningfully to any perturbations in the supply of clothing from abroad. Furthermore, as pointed out earlier in this chapter, this is part of a general decline in production industries and the growth in informal trading that is clearly connected with precarious livelihoods and a lack of skills because there is simply no demand for greater skill levels.

A glance into local stalls and shops even in the poorest districts of cities in developing countries reveals that many—and often the bulk—of the products being sold have arrived in the city ready-made and that much of this is imported; even when the products are manufactured and packaged locally, this has been done in factories using machines and employing very few workers.

The problem is not about the need to increase productivity in the sense of producing more goods per person-hour because, in this situation of incipient over-supply, one informal worker discovering a trick to sell more is likely to further impoverish her colleagues.⁴⁷ The problematic is complex when looking right across the local economy of a large city in a low-income country. However, *prima facie* it has two important dimensions. On the one hand, efforts need to be made to stem the flow of money out of the local

⁴⁶ The South African Government banned the import of second-hand clothing from 1999, as a measure to protect the local tailoring industry.

⁴⁷ For this reason, focusing resources on BDS and lending money to start new enterprises in highly volatile sectors or sectors that compete with cheap imports is unlikely to improve incomes without at the same time protecting the industries in which the new enterprises will be active. See Chapter Six.

economy—and, where possible, increase the money flowing in through exports—and in this context, start an upward spiral of incomes.

On the other hand, efforts need to be put into finding or designing new areas of activity—or re-colonizing old areas of activity through sheltering local industries—and then steering and supporting the growth of selected activities within a long-term planning framework that aims, in a coherent way, to (re)build urban economies that satisfy local needs in terms of both employment and products (goods and services). How this might be done is the subject of the following chapter.

5.7 Producing the Good City

Having established the reasons why there should be decent work for all those who wish to work, we now need to look at the work that actually needs to be done to produce a good life for all. Here, we start by looking at what physically makes a Good City, then at what needs to be supplied and produced, in order to ensure that life in the city is convenient and comfortable for all—eliminating poverty—and then at how the city can also be an enjoyable place to spend time. Finally, this section takes a preliminary look at the political, institutional and administrative means to accomplish this.

In Chapter One, a brief sketch was provided of the poor conditions and dysfunctionalities of cities in developing countries and the urgent need for work to be carried out to rectify these. Chapter Three then discussed how work needs to be undertaken to improve the infrastructure and housing conditions, and that this should be carried out while keeping in mind ways in which the demand for labour to accomplish these works can be maximized.

While on the whole citizens in the richer economies can be justly proud of the functionality and attractiveness of their cities, improvement in the physical condition in developing country cities is an urgent priority. Concerted public works and housing programmes can improve conditions and also provide work as a significant component of the (re)building of urban economies.

Historically, such programmes have been undertaken under varying circumstances, in terms of why and how they were organized, but clearly they should be linked directly to work that needs to be done. In Chapter Three, we discussed labour-intensive public works programmes and here we would emphasize how these should be embedded in consistent long-term urban planning, in order to provide adequate physical and social infrastructure and ensure a reasonable quality of housing for all.

The current ‘conventional’ approach to such provision is through ‘upgrading’ programmes. While it is necessary to be realistic with regard to what can be afforded in different cities, it should also be said—as is stressed in the basic goal for the Cities Alliance to achieve ‘cities without slums’—that governments should set their aims higher and find the political will to provide adequate urban housing conditions for all within a foreseeable time-scale.

In order to illustrate what is possible, it would be useful to point to Hong Kong and Singapore, both of which, at the end of the 1950s, were suffering from totally inadequate infrastructure, with the majority of the population living in precarious informal housing. Over four decades, starting initially with extremely basic technical specification and construction methods and then moving to higher standards, the urban authorities of these

cities were able to overcome the pre-existing problems while at the same time catering for rapid urban expansion.⁴⁸ It is certainly true that these cities experienced rapid economic growth, which generated the financial resources that enabled them to undertake increasingly massive work programmes and, in contrast, it is true that most cities in poorer countries simply do not have such resources at present.

However, these programmes were initiated prior to the rapid economic growth of these cities and it has been contended that rather than these programmes being the consequence of economic growth, they were actually an important driver of such growth (Castells et al, 1990). Today, on the other hand, there are many cities that are just as well off as Hong Kong and Singapore were in the 1990s but in which the authorities have failed in terms of the political will and the effective administrative programmes required to address the problems. In spite of adequate resources, such cities are failing to provide an adequate living environment for very many of their citizens.

While the Hong Kong and Singapore Governments found the resources locally—as did the authorities in Chinese cities, which are currently managing to provide a reasonable quality of infrastructure and housing in the context of very rapid urban growth—the IFIs are certainly prepared to provide the financial resources elsewhere that would be necessary to initiate major public works programmes. The key issue is to put the political will, the policies, the institutional framework and programmes in place. Clearly, however, adequate consideration has to be given to designing the appropriate approaches to such programmes from the point of view of the social process of relocation and their longer-term sustainability (Atkinson and Thielen, 2008).

Programmes to improve the quality of urban infrastructure could—perhaps even should—be designed within an overall framework of sustainable development of urban regions. As such, it can be expected that a significant component would go beyond the effective treatment of urban waste and focus attention—under the currently fashionable heading of ‘green jobs’—specifically on the rectification of environmental damage that has been wrought in recent years in urban regions. This would also focus on ecological improvements, including urban parks and regional tree-planting and related programmes.

There is also an important potential in terms of employment generation that could be realized by intervening in urban economies, to improve the supply of materials and goods so as to be able to offer citizens the provisions to satisfy their needs and overcome the poverty so prevalent in the urban areas. ‘Globalization’ and the prejudices and presumptions of current approaches to economic development have resulted, as was pointed out Chapter One, in diminishing amounts of provisions being supplied within the urban regions themselves. Today, the ‘ecological footprint’ of even quite poor cities spreads right across the globe to obtain the provisions to satisfy the demands of their citizens. The existence of poverty is, in significant measure, an indication that this system of provisioning is not working for significant numbers of citizens.

The lifestyle of the upper and middle classes of cities now rests almost entirely upon materials and goods imported from outside their urban region and many of these from

⁴⁸ A general prejudice sees such programmes as linked to authoritarian Communist government where, in practice, both Hong Kong (then a British colony) and Singapore were generally run according to market principles but did, nevertheless, undertake major effective and efficient government-run public works programmes.

abroad.⁴⁹ This means that significant, even substantial, amounts of money spent on achieving their lifestyle flows out of the urban regions and even out of the countries in which they are located. Even a growing amount of the provisioning of the poor is supplied in this way.

In the not too distant past, most of the provisioning of cities, including food, building materials and energy and many manufactured goods, were labour-intensively sourced from within the city and its hinterland. Urban regions could again become important sources of provisions for their cities if an appropriate set of policies, and the regulations to implement them were to be put in place, in order to selectively discourage imports and encourage local sourcing produced labour-intensively (Stöhr and Tödtling, 1979).⁵⁰ In the following chapter, we shall look in more detail at how a possible step-wise ‘recolonization’ of the productive economy might be undertaken in urban regions.

Box 5.2: Bogota sin Hambre

With the election of Mayor Louis Eduardo Garzón in 2004, attention was focused on the fact that malnutrition was affecting more than 600,000 poor people in a city surrounded by a highly fertile hinterland that could produce the necessary basic diet of the whole population. Of course, the issue was, on the one hand, the inability of the poor to pay for food and on the other, the use of the land surrounding the city for purposes other than the supply of basic food products. The Bogota sin Hambre (Bogota without Hunger) programme was undertaken both to subsidize basic food supplies to means-tested poor families while developing sourcing for much of this from the immediate hinterland of the city.

There can be little doubt that such a policy carried through consistently—making more expensive much that the modern classes have come to enjoy—would be resisted. Properly designed and with greater commitment to making cities succeed for all, however, these could start to regenerate local economies and, in the process, provide more substantial work for those currently suffering unemployment and underemployment and by this means, reduce poverty. Such policies would be likely—and might be designed specifically to this end—to reverse the almost universal trend in recent years towards widening income differentials.

There is certainly no desire to revive the industrial cities of the past, with all their noise and pollution and their long hours of work but rather—in the light of the reasons for working outlined above—to extend the availability of ‘socially useful work’ so as to take the pressure off the ‘race to the bottom’ that is a notable characteristic both of formal and of informal labour markets in developing countries. What is needed then in the informal service economy is a tightening of labour-markets that could act as an incentive to improve the quality of services being offered, on the basis that a larger proportion of the population being employed will also be lifted out of poverty and will, therefore, be able to afford better services.

Cities are not just places for work and production but also places where people enjoy living. As noted in Chapter Two, clearly an important motivation for rural-urban migration in recent years has not just been to improve economic chances but also to enjoy an urban lifestyle. One can identify aspects of this that are not, perhaps, to be encouraged—such as

⁴⁹ Final assembly of products, packaging and so on of materials and goods supplied by transnational companies is often undertaken in the country of consumption or a neighbouring country, and indeed the bulk of international trade actually involves movement of components and materials within companies (Amin and Thrift, 2002, 64). This, however, provides little local employment and the bulk of the value added flows back to the country where the company is headquartered.

⁵⁰ A trend towards ‘localization’ may well emerge of its own accord in the coming years, if the current crisis in the global economy continues to deepen (Atkinson, 2008).

drugs, gambling and prostitution—but certainly there is much that involves entertainment and leisure activities and generally the good things of life that can enhance the city and that also provide productive and decent work.

This is very evident in northern cities, where both formal activities ranging from theatre, music and exhibitions to the pleasures of eating, and such informal activity such as street musicians and still life acts, provide incomes for a significant proportion of the workforce. Nevertheless, even in poor cities there is significant scope for such employment to enhance both the ambience of the city and its liveliness and in what might be considered the more serious arts and crafts. Three examples from settlements are illustrated in Box 5.3. Besides serving local needs, this becomes an important dimension in attracting tourism and generating exports where whatever the city produces gains a wider national or international reputation.

Box 5.3: Three Asian Examples of Local Economies built on Arts and Crafts

Bali's Arts Villages – Ubud and Tenganan

The Hindu island of Bali in Indonesia is famous for its music and dancing, its architecture and its arts and crafts. Regular religious offerings and rituals require the production of artifacts to decorate and accompany these activities. While all villages undertake some of these activities, some villages have excelled and developed and thence specialized in the production of highly refined products such as the 'double ikat' cloth of Tenganan and the painting of Ubud. Traditionally these products circulated within the island, enriching the lives of the inhabitants of the island. The growth in tourism, however, has led to some of these industries producing in greater quantities for sale to tourists and to feed a significant export trade.

Hanoi's Craft Villages

The city of Hanoi, the capital of Vietnam, is celebrating its one thousandth anniversary. From its earliest days, the arts and higher culture were encouraged and even today, the old city of '36 streets' (actually around 70 streets but probably named after the 36 guilds into which the craftsmen and traders were organized) is renowned for the specialization of trades in particular quarters. The craftsmen originated from surrounding villages, exercising their manufacturing activities both in the villages and in the city. Today, few of these products are produced in the city but more than 50 villages in the area surrounding Hanoi still specialize in different products. Some of these remain oriented specifically to Vietnamese taste, for example So noodle village and also Le Mat village, which breeds snakes for their meat and as an additive to alcoholic beverages! Others now produce not only for local markets but have also become renowned tourist destinations; these include Bat Trang ceramic village, Van Phuc silk village, Dong Ky wood carving village, Kieu Ky gold leaf and leather goods village and Dong Ho painting village, each of which now attract tourists, as well as selling products within the city and elsewhere in Vietnam.

Philippines: Angono - Town of Art

A much more recent development occurred when the new mayor of Angono—a town not too far from the capital of the Philippines, Manila—decided to promote its already thriving art industry as spearhead for tourist promotion. In this case, it was felt necessary to improve the general look of the city and develop the infrastructure, in order to bring Manila tourists to the town, as well as making it into an attractive place to be once they have arrived.

To build on the artistic traditions of the city, the municipality established the Angono Regional Pilot School for the Arts the aim of which was to cultivate homegrown creativity in the visual arts, dance, theatre, creative writing in English and Tagalog, as well as vocal and instrumental music and media arts. It aims to "develop aesthetic awareness among the students, thus establish cultural identity, awareness of life and a sense of community and preserve tradition." The whole strategy—town improvement and development of the arts—is seen in a significant part as a means to achieve high levels of secure and decent employment.

All this implies changes in the policy environment at the municipal level, although it also calls for support from national governments. Local authorities in most countries have responsibilities to make plans of various kinds for the development of the city. Distinctions are made between budget—including development—planning and land-use planning. What is being called for here, however, is a new focus for local planning at the urban and regional level to encompass a significant augmentation of responsibilities not just to direct the use of land resources and manage local budgeting processes but also how these resources and what they produce connects through to the social process in terms of employment and the distribution of other benefits. The following chapter thus begins by looking in some detail at how this process might work, starting from what are already quite widespread experiences of 'participatory planning' and orienting these in a more focused way on the generation of decent work as a basis for poverty elimination and creation of the Good City.

Chapter Six: A Strategic Approach to Generating Local Employment and Decent Work for all who wish to work

6.1 Introduction

The previous chapter was designed to provide a foundation in terms of understanding what has to be done to rethink and take actions that will be effective in achieving productive employment and decent work for all. This chapter moves further into the area of active labour market policies (ALMP) and, in many respects, beyond by linking these into proposed structural changes in the local economy. It presents a step-wise procedure that local authorities can initiate but which from the outset, will need to bring together representatives of the entire urban and regional population so leading to the (re)building of local economies, with decent employment as a social good at its heart.

From the outset, the whole population needs to be sensitized to the initiation of a community-wide process or a major augmentation and integration of hitherto fragmented initiatives towards local development. The process will not be able to progress far without a comprehensive knowledge of how the local economy—and social economy—currently function as the starting point for the development process. Data and appropriate analytical tools should be developed as the basis for effective decisions on what and how the development process—with employment generation as a central goal—should be (re)structured.

The chapter then discusses economic activity in its totality, examining which sectors, sub-sectors and kinds of activity show potential promise as to where investments can be made that will generate employment and lead towards improvements of the city, as both a place and as a process. All potential sectors—primary (agriculture and basic resources), secondary (manufacturing) and tertiary (services) —with a major focus that takes a critical look at how manufacturing might be ‘re-colonized’ to reverse the long-term decline in employment that this has experienced over recent decades.

It is, therefore, necessary to consider how the legal and regulatory framework needs adjusting, in order to accommodate the new developmental focus. New initiatives will also need financing and this too requires considerable attention; money is available for new initiatives of the kind discussed, but the mechanisms of obtaining and administering it need to be reconsidered. Finally, the question of generating, throughout the community, an orientation that encourages participation and overcoming exclusion needs to be addressed in terms of awareness-raising, capacity-building, education and training.

6.2 Urban Social Dialogue: Engaging Multiple Stakeholders

In earlier chapters of this Research Report, there have been references to the way in which local governments need to engage with other stakeholders, in order to facilitate the process of employment generation. At the strategic level this is in consideration of the process of decentralization and democratization where not only local authorities are empowered to organize development at the local level but citizens also have direct access to decision-making wherever decisions affect their lives; this is what is nowadays referred to as subsidiarity, which was discussed in Chapter Three. The process by which citizens become involved in local decision-making falls under the general title of ‘public participation’ and much of this chapter will be devoted to indicating how citizens can be

involved in decisions leading to effective local employment generation and, more broadly, overcoming social exclusion (Stiefel and Wolfe, 1994).

In the past, local governments undertook their activities to the exclusion of—the idea was as ‘authority’ above—the local society, handing down powers and resources within the scope of their remit. Today, local governments are seen in a different light, in their decentralized form, as partners in development with a particular role to play in association with other local stakeholders, generally clustered into two main groups, namely the private commercial sector and ‘civil society’. In recent years, there has been a great expansion of local participatory processes with a wealth of methodologies (NEF, 1999) many of which are, however, concerned with specific aspects of local life and take place at a very local level among specific communities. It is also true that many participatory processes fail to make effective impacts because, for instance, they exclude key stakeholders or being no more than discussion forums, they fail to generate effective actions.

‘Social dialogue’ is the participatory approach used in the ‘world of labour’ which is not, in its original form, the same as community-based participation that is the oldest such interactive process, which started as long ago as the early 20th century. It can include various forms of negotiation, consultation or simply an exchange of information between representatives of governments, employers and workers on issues of common interest relating to economic and social policy. The goal is to promote consensus building and democratic involvement among the main 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, and boost economic progress.

In social dialogue at the national level, the workers are represented by the trade unions, the employers by employers’ organizations and the government by the Ministry of Labour (when the matter under discussion specifically relates to a particular sector of the economy, the ministry responsible for that sector also takes part). But social dialogue in its original form can still fulfill an important role at the local level—an example being provided in Box 6.1 below—in the general context of bringing the social partners together to ensure, in the later stages outlined below, that relations between actors are harmonious and fruitful (van Empel and Werna, 2008).

In the case of urban/municipal social dialogue, the workers and employers should be represented by their respective organizations in the municipality and the government by the local authority. Federal and provincial bodies may also avail their representatives. Urban/municipal social dialogue also offers an opportunity for other locally organized actors, which very often are not represented at national or even provincial level, notably the associations of informal workers and/or enterprises, associations of micro-enterprises, together with grassroots organizations, community associations and social movements.

Box 6.1: Social Dialogue in the City of Marikina, The Philippines

In the 1960s, Marikina was the envy of the emerging metropolitan Manila because it was playing host to big industries availing themselves of the incentives that Marikina enjoyed as a special industrial zone. Moreover, Marikina was home to a flourishing footwear cluster. However, in the 1970s, it lost its special status due to changes in national policy. In the 1980s, Marikina's national status deteriorated further as it suffered from the harsh competition of the Chinese footwear industry. In addition, the city was plagued by floods and nasty stories on crimes and grime. The negative image was compounded by the chaotic system of industrial relations, when Marikina became a center 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 favorable labour and business climate through social dialogue. To this end, the Mayor undertook the following steps:

Making personal contacts with wide range of workers' and employers' representatives. This resulted, *inter alia*, in the forging of an alliance among the city's fractious unions, i.e. the Alliance of Trade Unions in Marikina (ATUM). The Marikina Valley Chamber of Commerce and Industry (MVCCI) was acknowledged as the main voice of business because other employers' organizations are represented on its board. This regrouping of workers and employers eventually helped the Mayor to convene tripartite consultations in the city, based on balanced representation among the parties.

Arranging a series of formal and informal dialogues, initially facilitated by the Mayor himself.

Creating an official tripartite body capping the ongoing dialogues and followed by several tripartite agreements.

Institutionalizing the dialogue system backed up by a Workers Assistance Office financed by the city.

Formulating city policies in line with the tripartite agreements.

Through dialogue, the city of Marikina was 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. Above all, dialogue has been crucial in inculcating respect and trust between and among the tripartite social partners.

The decentralized tripartite system that has developed in Marikina is characterized by continuity and a clear development focus. Furthermore, its institutionalization through a regular secretariat and mechanisms for dispute settlement is typical for the success of this experience as it avoids 'ad-hocism' and crisis-focused management. Thanks to the support and participation of the workers' and employers' organizations, the mayors could play a key role in making this happen.

Source: van Empel and Werna, 2008, Box 1.

Looking more broadly at local participatory planning processes, there are many ways in which local stakeholder groups interact to achieve different ends. By the 1970s, it became evident to some people that any development generally organized from the top-down was lacking decisively in effectiveness because it neither listened to what the people wanted and needed nor communicated the possibilities in an understandable way; in short, it was authoritarian and often inappropriate (Korten, 1986). Participatory development processes thus broadened out initially in rural areas in the form of 'Rapid Rural Appraisal' (Chambers, 1983) with the ILO initiative of Participatory Action Research (PAR)—or 'people's self-development' (Rahman, 1993)—making its way into urban development contexts during the 1990s.

By now, the field has broadened considerably and become a complex area in which local politics and development are played out as multi-stakeholder participatory processes under the general heading of 'local governance'. Thus besides the participatory processes of settlement upgrading discussed in Chapter Three, we see the initiation and spread of participatory planning and management of the urban environment sometimes under the heading of 'Local Agenda 21' and new processes of determining how local authorities should spend their development budget appearing under the general title of 'participatory budgeting' (Gret and Sintomer, 2005). It is generally recognized that effective efforts have to be made to explore—through 'asset mapping' or other techniques—what groups and individuals in the community need to be involved and in what capacity. This may be in the form of representation or tapping vital skills and talents.

Ultimately, what we should be seeking is for the local development process as a whole to be determined as a local interactive planning and management process that goes beyond sectoral and community procedures to be articulated into broadly conceived and effective local and sub-regional development. As the creation of high levels of secure and decent employment has been discussed throughout this Report as a key component of local development—to overcome the employment crisis and create the Good City—so we will, in this chapter, be focusing on how participatory processes can be forged to eliminate poverty and social exclusion spearheaded by the generation of full and productive employment and decent work for all throughout urban regions. What is presented here is a step-by-step approach to creating a basis for generating full employment. It will be seen that participatory processes do not result immediately in institutions but, rather, that the institutional landscape is opened up in stages to participation in the (re)building of local

economies and institutions for social provision that will yield decent jobs. In referring to ‘urban regions’ these may already be defined but if not, then efforts will need to go into finding a formula for collaboration across municipal boundaries. This may be specifically for the purpose of the planning process or involve existing or potential functional collaboration such as is sometimes found in regional water supply utilities, transport utilities of inter-municipal solid waste management agreements.

6.3 Generating a Vision of Full and Decent Employment and how to achieve it

It has become common practice for local participatory planning and management processes to start by bringing together a wide range of stakeholders to develop a strategic vision of what the process should be aiming to achieve encapsulated in a single sentence. This is followed by an analysis of the problems that will have to be faced and how it is intended to approach these. A common approach is to undertake, with the same group of stakeholders, a “SWOT” analysis, exploring the Strengths and Weaknesses in the current situation and the Opportunities and Threats faced in efforts to fulfill the vision. This is the way in which City Development Strategies, supported by the Cities Alliance, are initiated (Cities Alliance, 2006) and it would also be an appropriate way to initiate a new phase in municipal efforts to increase, and eventually achieve, full employment.

So how should this be organized? As already noted, all sorts of formats have been tried and applied in different cities with different geographic scales—neighbourhood, city, urban region; different foci, including neighbourhood land-use planning, general development planning (with participatory budgeting as one variant), environmental planning (Local Agenda 21), local economic development initiatives and so on—as well as different kinds of venue and time-tables, with different groups of stakeholders being invited to attend. Here, we present a format appropriate to starting a new initiative aimed at achieving “full, productive employment and decent work” in a city or urban region. In fact, this will necessarily look at the development of the local economy and also from the point of view of social and not just economic development; it will also look more broadly at initiatives such as government investments and the social economy that are not conventionally associated with a narrow focus on local economic development.

The mayor(s) and councillors should be convinced that it is time for employment to become a central policy issue. The implication throughout this Report has been that city and hinterland need to be considered together as serving mutual needs, with the result that the city and its surrounding municipalities need to cooperate closely in the local economic development and employment strategy. This policy priority and involvement of a wider geographic area will need to be transmitted to the population as a whole and would, therefore, start with effective information dissemination and involvement through a ‘visioning’ exercise aimed at the widest possible audience.

At the same time, commitment should be secured among such key organizations as employers’ associations, trade unions, associations of workers in the informal and home-working sectors and whoever else is deemed important to structure the ensuing planning process. The vision statement should be backed up by the adoption of clear, measurable objectives that will form the structural basis for the subsequent planning process. Once a vision—possibly for full and productive employment and decent work within a particular timeframe—has been worked up and disseminated, a second round of public discussion will have to come to terms, perhaps through a public SWOT exercise, with the problems and resources necessary to realize the vision.

It is extremely important that the results of these exercises are internalized and disseminated through key organizations. This is, above all, the case for municipal staff for whom there should be training events and even longer programmes involving staff from

different departments in internalizing the outputs of the event and the implications, over the coming years, for their own activities.

6.4 Analyzing Local Productive Activity

In introducing the Cities Alliance in Chapter Two, it was noted that the organization has produced a resource guide for local authorities wishing to analyse how their local economy works (Cities Alliance, 2007). In the same chapter, it was noted that UN-HABITAT has made available a manual to help local authorities undertake local economic development initiatives (UN-HABITAT, 2005); this includes information on how to analyse local economic activity. Local development focusing on employment is, however, a broader exercise than local economic development alone. It has been emphasized earlier that the world is suffering from forms of economic development that all too easily fail to generate—and may even destroy—employment. Detailed information on how the local economy works is necessary but not sufficient and it is thus important also to assemble information on activities other than those of business or state-owned enterprises, including the social economy and local government activities that provide employment.

As will become evident later in this chapter, local economic development that answers social needs to which employment is central has to start from employment issues and will have to keep these permanently in focus. That is to say, the analyses under discussion here should cover the human and social dimensions of development and not be restricted to initiatives in the economic sphere that generate wealth (for some). Thus the analysis would look not only at enterprise and what is being—or could be—offered in terms of goods and services, but equally at human and social capital, meaning what skills that are present locally are unused or underused. It should be looking at further initiatives that might be undertaken in terms, initially, of forward and backward linkages to current activities and initiatives to address more directly the needs of the poor, and what skills could be usefully developed through education and training.

There has been some debate recently on the question of achieving ‘pro-poor growth’ but little direct focus yet to identify adequately the categories of the socially excluded that include the unemployed as a central group but could also cover a good proportion of those working—very often underemployed—in the informal economy. The analysis under discussion here will need to develop adequate ways—relevant to local circumstances—to identify the socially excluded as a basis for taking action to (re)insert them into local adequate income-earning activity (Box 6.2 below as example).

Box 6.2: 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 at which 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 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). For Medellín, 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.

Source: Cities Alliance, 2007: 77.

A further consideration that will be important for identifying new areas for economic and social activity will be to understand consumption patterns and how these are currently being satisfied or, where the poor are concerned, not being satisfied. The basis for much of the information needed in the analysis under discussion here will come from periodic

surveys, not only of businesses and business activity but will centrally involve household surveys and participatory issue analyses in the form of focus groups. These surveys should not merely look at what is happening by way of employment and economic activity—including the informal economy—but also at the structure of household expenditure and consumption patterns and aspirations.

Box 6.3: The Durban Local Economic Analysis

The eThekweni Municipality has, for an extended period of time, placed some emphasis on building its own knowledge base on the local economy, as well as on sharing this with local stakeholders. This has been driven by a number of objectives: to enhance planning and the quality of municipal programmes; to provide a common basis for approaching economic challenges with other stakeholders; to improve the scope for evidence-based policy influence with other spheres of government. This has involved the employment of staff to perform a research and knowledge function, making information on the local economy available to other stakeholders, the production of reports and the conducting or contracting of specific pieces of research.

A highlight of this was the commission of a major survey involving small and large firms during the 2002/2003 period, which was sponsored by USAID and the World Bank. This research allowed for the clearer identification of priorities and a more informed decision making process. Notable in this research was the focus on factors influencing employment trends of formal businesses. At the same time, a survey of informal business was also undertaken, the first of its kind at this scale in South Africa. This helped to identify key challenges informal businesses were facing and informed a more targeted response from the municipality. A better information base has enabled the municipality to produce more focused direction for economic development as evidenced in the production of the city's economic development strategy 2008. However, while some work has been initiated on skills demand within the local economy, no specific research has been undertaken or reports written on the particular issues related to employment and unemployment in the economy.

Source: Robbins, 2008.

Organizing the analysis of productive activity will follow a certain path, with particular activities following in sequence. A group of organizations will need to come together, initially informally, to discuss the nature of a long-term planning process for employment and, with this roughly defined, to decide what is needed in terms of an information base. How this will be put together in terms of the allocation of responsibilities for collection, processing and storage/access will be decided. Funding for this activity might come from various local sources or with the assistance of international organizations (see Box 6.3 above). Relevant information should already be available from national, and perhaps also municipal, sources although labour market and household surveys and, in particular, group discussions will need to be carried out, in order to obtain the relevant information.

Box 6.4: South Africa's State of the Cities Report – the Employment Dimension

Over the past few years, following the lead of UN-HABITAT in producing a global report, a few countries have embarked upon the production of 'State of the Cities Reports' that set out what is happening in terms of urban growth and change. The production of these is mostly being supported by international and bilateral development agencies and is being especially promoted by the Cities Alliance; in general, these are greatly improving the information basis for the effective formulation of urban policies and programmes.

Four dimensions underpinning the activities of the Cities Alliance provide headings for the analyses: productive cities, sustainable cities, inclusive cities and well-governed cities. Under these headings, and within the framework of the importance that employment plays in the South African policy context, the team producing the report, in addressing productivity and inclusion, focused strongly on the role that employment plays in these dimensions. Thus a clear overview of the employment situation in South African cities, together with a policy framework for addressing serious unemployment and underemployment is presented. This should provide something of a model for countries just embarking on the production of State of the Cities Reports.

The 2006 South African State of the Cities Report is available at: www.sacities.net/2006/pdfs/cities_2006.pdf

This approach and method may be appropriate, and possible, in a medium-to-large municipality in transition and in middle-income countries, as well as in the North. Smaller municipalities in poorer countries will not have the capacity to do more than basic information collection and analysis. If simpler methods of information collection and

analysis can be launched, these should be used. Under these circumstances interactive data collection approaches such as Rapid Urban Appraisal may be usefully adopted. On the other hand, municipalities should be able to approach and obtain resources from central governments or international development organizations to assist in developing and executing more complete exercises, the issue then being to ensure that municipalities have the capacity to make effective use of outputs of such efforts.

Box 6.5: PPDEL - Urban Regional Economic Analysis in Burkina Faso

A programme for local economic development is underway in Burkina Faso, with processes in different towns and cities being supported by different bilateral donors and involving the Cities Alliance. The programme – entitled *Plan Programme du Développement Economique Local* – is the outcome of a region-wide initiative originating in the perennial Sahel droughts of the 1970s and '80s and the urgent need to construct more robust local economies. Starting in 1997, the Club de Sahel, working closely with the World Bank-supported Municipal Development Programme, under the title of ECOLOC, financed a number of pilot studies of cities and their hinterlands across the region, in order to understand how the sub-regional economies work and to explore possible lines along which the economies could be strengthened. They then developed a local economic development (LED) methodology, versions of which have been introduced in the countries of the region and applied within individual urban regions of which the Burkina Faso is one.

In localizing the programme, it was clear that with emerging decentralization initiatives, LED would need to lead the process. Local authorities were raising almost no financial means to undertake activities that would need to include infrastructure development and the capacity to be able to coordinate LED initiatives. Increases in local economic activity would also help local governments to raise the finance necessary to develop and maintain infrastructure. The methodology starts with some analyses of the urban regional economy, followed by an extended process of involving a range of local interests in both understanding the way the economy works and coming together to identify initiatives that might be taken, in order to build on local resources, capacities and advantages.

Outcomes from the first activities identified and organized are now emerging, indicating that the methodology has great promise to increase local wealth. The process has not, however, focused specifically on the issue of employment generation, hoping that this will follow from the general increase in economic activity.

Source: Cahiers Africains sur les Economies Locales, 2007.

6.5 Employment Generation of Different Investment Paths.

It has been observed that in recent years, economic growth has been faster than the growth in employment and that the traditional employment sectors—in particular manufacturing—have been declining and, above all, reducing demand for labour that does not possess the skills for, or have any access to, jobs in the new types of services. The following sections of this chapter examine possible routes to the substantial expansion of employment opportunities, which means finding economic and social activities that will yield productive, decent work. Before we can examine the various sectors with employment potential, however, it is necessary to discuss how municipalities can assess which investments will be more 'employment rich' and hence where to lend their support.

While ad hoc methods have occasionally been used in the past to give an impression of how many jobs a particular investment will generate, these are frequently little more than conjecture. Here, we describe more sophisticated methods of calculating the employment impacts of different investments, which can give considerably more reliable answers and which allow the exploration of different investment paths and the robustness of the estimates to be assessed. It should be noted here (and again at the end of this section) that these methods have, so far, been used only at the national and regional level but that where information is available or collected then these are also applicable at the level of the city and the urban region.

In the first instance, it might seem that almost any new investment would be worthwhile in that it could be expected to result in employment. However, as already noted

in Chapter Three—where employment-intensive infrastructure works were discussed—it is possible to organize such works in ways that create more employment per unit of investment and employment for those most in need of work and income. It was, however, noted that it is not simply a question of how many people are employed on the building site but also how many jobs might also be generated locally in producing the tools, materials and components needed to carry out the work and then how many service jobs are created to organize the work and satisfy the needs of those employed on site and downstream ‘induced employment’.

In short, each directly created job generates work indirectly in the form of ‘forward and backward linkages’ through what are termed ‘multiplier effects’. Once the work is done, this may also induce permanent employment directly if this involves, for instance, constructing buildings that will house economic activities, or indirectly through the improved efficiency of the urban environment or economic system.

It was also noted that while we can be quite sure that some of these jobs will be local, it is likely that others will be created outside the urban region and, these days, probably to a significant degree abroad. And so, 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. In principle, the aim would be not just to assess jobs—or working days—per unit of money invested but also establish where the employment is likely to be and what quality of employment can be expected, including an indication of the skills that will need to be developed if the employment is to be captured locally.

Methods for calculating multipliers that involve work serving the needs of those employed directly in investment in different sectors have been available for many decades. However, in recent years, modelling methods have proliferated and are now capable of throwing light more precisely on issues that are of interest for testing policy reforms such as Poverty Impact Assessment (PIA) or Poverty and Social Impact Analysis (PSIA) or Sustainability Impact Assessment (SIA). Methods of calculating employment generation impacts have also been substantially developed to include related social impacts variables.

The basic tool for calculating employment impacts of productive investments is the ‘input-output matrix’. This indicates, in the first place in money terms, how resources invested in one sector are distributed to all other sectors thus showing the forward and backward linkages throughout the economy. For instance, it will show how much of a particular investment will go to construction, purchasing machines and materials, to governments and to private consumption. The range of sectors may be disaggregated as needed. Input-output matrices can be elaborated into ‘Social Accounting Matrices’ (SAMs), which focus not only on production but also on income transfers between the institutions, enterprises, households, government and the rest of the world. It helps to illustrate how income is derived from production activities and how it is distributed to the various socioeconomic groups in the economy. Analysis using a SAM typically requires detailed statistical information on the local economy, as well as on government and household spending (Cities Alliance, 2007).

SAM will only provide information about what has happened in the past, reflecting the existing structure of the economy. A SAM, which is an accounting model, is not appropriate for indicating future conditions where changes such as technological change and changes in wages can be expected, which would alter the outputs of the matrix. Nevertheless, a SAM can be extended to a fixed-price model (including agents’ behaviour) and be used in conjunction with a Computable General Equilibrium Model (CGE), which makes the procedure more dynamic. SAM in combination (or not) with CGE models are helpful to test *ex-ante* the potential impact of different policy choices on employment and on specific target groups and can thus help define and target more effective employment and broader social policies.

Such methods are clearly only available with a certain level of resources that would preclude smaller and poorer cities and countries that are likely not even to have the basic national data. Here, more ad hoc methods could most likely be used, which can, however, be of some use as long as local surveys have been conducted. In any case, it can be seen how the data gathering exercises called for in the previous section of this chapter need to include the collection of data relevant to whatever level of employment impact assessment is to be carried out. As noted above, so far these methods have been used only at the regional and national levels but they do have the potential to be adapted to operate at the level of the city.

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.

It should be noted that such models will not produce precise results and any results that are produced should be subjected to sensitivity analysis, in order to ascertain the level of certainty that can be assumed. It should also be stressed that not only the parameters within the matrices will differ between countries, and even between cities, but that the particular social and economic conditions should be taken into account. It was noted above, for instance, that the informal economy can be modelled but it should be remembered just how complex this is in terms of workers’ working flexibly, in more than one part-time job and so on. We would stress, as an essential message, the importance of exercises aimed at assessing employment-generation impacts of future investments and the lines that the kinds of local economic planning discussed below might wish to pursue. However, the limits of accuracy and certitude of outputs of these modeling exercises should be assessed and acknowledged for the particular situations in which they are used and appropriate methods adopted.

6.6 Approaches to Employment Generation

In earlier chapters of this Report, we discussed in some depth the main approaches that local authorities in many cities are currently taking in efforts to increase employment. This falls under three headings. Firstly, local authorities—often through economic development offices—are ‘marketing’ their cities, in order to attract inward investment. Often this is inadequately critical of the negative social and even economic impacts that such investments can have, and insensitive to the often limited employment-generation at relatively high cost to the municipality. This is, nevertheless a strategy which some local authorities are able to use with some success in attracting employment and tax income, which can be used for general urban development (see Box 4.1).

Secondly, as discussed in detail in Chapter Three, local authorities can, and in some cases do, focus their attention on maximizing employment generation in the use of their own financial resources. This is particularly important in the case of infrastructure investments, which are often the largest part of local authority development budgets.

The third area where local authorities are focusing their efforts, as discussed in Chapter Four, is to help start and support small and micro-enterprises and in general to encourage a more entrepreneurial local society. This is relevant insofar as it addresses a *de facto* situation where almost everywhere employment has been fragmenting into small enterprises and people working on their own. Municipal initiatives and BDS, which, in most countries is supported by national governments and often also international development organizations, fulfill a necessary task of helping small enterprises to become more efficient and effective in their activities. To increase the effectiveness of BDS, simultaneous efforts should be made by local authorities to adjust their laws and regulations with a view to lowering the costs and increasing the benefits for people to formalize their enterprises. In addition, promising enterprise development initiatives have focused on value chains, or “Making Markets Work for the Poor”, intervening to identify and remedy market weaknesses.

Before indicating numbers of other initiatives that local authorities might take in cooperation with other local stakeholders to generate employment, we need to ask some questions as to what principles and goals beyond the general idea of ‘creating employment’ might be aimed for. Here is a short list:

- Cities everywhere already have citizens with skills and economic activities that they use well and for which they already have markets. This generally indicates their comparative advantage, and an immediate effort can be applied to maximize that advantage by improving on the products and the marketing of these. This is frequently based on what are referred to as ‘clusters’ which have a long history in cities around the world, where information and skills development are shared between enterprises working in the same geographic and product area so leading to improved products and more extended markets. While this is a clear way to support and develop local economies, single industry clusters should not be allowed to dominate the local economy where in a globalizing world competition, industrial restructuring and technological change can lead to sudden price collapses and even to the wiping out of whole industries in a few short years thus leaving large numbers of workers jobless.
- Cities everywhere—and particularly their hinterlands—often produce and immediately export primary commodities without any—or with minimal—processing. The finished goods made from these materials are then re-imported to the city and both the value added and the employment embodied in the processing and manufacturing is lost to the city. Initiatives can, however, usefully be focused on ‘moving up the value chain’. This means carrying out the processing of locally-produced primary commodities, producing semi-finished goods or even moving into final manufacturing, for local use, as well as for export. Classically, this involves food processing based on local agriculture but can also involve, for instance, artisanal manufacturing of household goods and even fabric and garments using locally-grown crops or other raw (e.g. building) materials.
- Local production can be more oriented to producing directly to satisfy local needs. Efforts in local economic development (LED initiatives) are often oriented strongly, if not entirely, towards finding and developing products for export markets nationally or even internationally within the framework of what is referred to as ‘Economic Base Analysis’ that assumes that the motor of local development is its export sector. However, this ignores the nature of local poverty, which means lacking access to quite basic goods and services, including food, building materials and simple household goods that can be produced perfectly well within the urban regions where these are needed. To say that the poor lack ‘effective demand’ is to dismiss the possibilities of connecting local (sub-regional) production with the fulfillment of local (urban) needs more effectively and, in the process, creating local employment that generates the income necessary to buy the local products. This does not only concern materials and goods but also the improvement of local services, which are often provided, if at all, by the informal economy through what in Chapter Four was called the ‘social economy’ but which also includes functions that we might more accurately refer to as welfare.

- Following on from the previous consideration, in aspiring to generate local employment, local authorities and those working with them should also consider ‘recolonizing’ manufacturing that has, as discussed earlier, been dwindling in terms of employment as a consequence of centralization and the mechanization/automation of production. Much of what is being imported or produced in mechanized and automated factories might be produced locally in labour-intensive ways. This would mean orienting the LED initiative of the city more towards questioning local consumption patterns (preference for imported goods, often succumbing to the temptations generated by high-pressure advertising) and working on the introduction of ‘appropriate technologies’ that are less productive in the conventional sense of the word but which do provide workers with the opportunity to develop skills they can be proud of and have control over what the machines and tools actually produce.
- 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.
- Finally, in recent years, we have seen a tendency to take inadequate consideration of the environmental impacts of our living habits and our production, in developed countries and perhaps even more so in developing countries. The urban and peri-urban landscapes have suffered from inadequate waste management and forms of development that have been damaging to the local ecology, as well as being wasteful of resources. Development of this kind is unsustainable and steps will have to be taken in the coming years to change the way in which we (ab)use these resources; if this is not done through wise planning then this will be forced on us because the environment will cease to supply us with its benefits. This change in approach to development will generate employment in both the public and the private sectors; this is currently being discussed under the heading of ‘green jobs’ and the planning processes discussed below should maintain these problems and develop an attitude conducive to creating work in improving environmental practice and a more parsimonious use of resources.

6.7 The Employment Creation Potential of Selected Sectors

We will now look right across the local and sub-regional economy to try to identify a range of actions that could be taken as a coherent approach to moulding the local economy to generate what the ILO refers to as “full and productive employment and decent work for all” and, in the process, producing the Good City. Central to this are two concepts presented in the foregoing chapter, namely provisioning the city and (re)inserting the socially excluded. The discussion is presented in three parts, focusing respectively on the three economic sectors: primary, covering agriculture and basic material resources; secondary, ranging from basic processing up to manufacture of finished products; and tertiary, providing services that organize the productive processes, social interaction and leisure and entertainment.

The Primary Sector

Back through history, almost all cities obtained the bulk of their food from their immediate hinterland. Things were already changing in Europe a century ago—and especially in the United Kingdom—where the cities were increasingly fed with grain and, from the late 19th century, with frozen meat from the Americas and the Antipodes. Building materials—the bulkiest of materials serving the needs of cities—were also predominantly from urban sub-regions. We have to go a little further back in Europe to a

time when energy resources were predominantly from the sub-region because, already a century ago, European cities were increasingly being fuelled by coal. Elsewhere, the decline in the local supply of food, building materials and energy is far more recent and poorer cities are often still dependent to a substantial degree for all primary produce from a relatively confined sub-region. The precipitate decline in agricultural employment has been associated closely with the departure of locally grown food, with urban hinterlands now being farmed industrially and usually exporting the produce across the country or internationally.

Labour-intensively, locally produced building materials and materials used in producing urban infrastructure—particularly roads and transport infrastructures—have progressively been replaced by energy-intensively and centrally produced cement, steel, aluminium, plastic and other highly processed materials. Indeed, it has been established that the production of these materials on a global scale has become a significant generator of greenhouse gases and is, therefore, questionable in terms of sustainability and the loss of employment.

Energy resources that once came from local biomass—and in most African cities still do—come today in the richer countries, and increasingly also in developing countries, from fossil fuels. Again, this involves a significant loss of local employment and is also very dangerous from the point of view of the non-renewability of the resource in the relatively short-term and the way in which these produce greenhouse gases.

Some 15 years ago, there was an initial recognition by development organizations that there was some restructuring of sub-regional agriculture in progress in terms of local supply and a significant emergence of ‘urban agriculture’. This is now being studied intensively (ETC, 2003) and it has been noted that although the extent and form of urban agriculture varies greatly between locations, it has now become a significant factor in local food production and income generation/employment in a very large number of cities. It is relatively well-known that many households in African cities—between a third and a half—produce agricultural products; some of this is for their own consumption but much is also for sale. It is certainly less known, however, that half of the populations of St Petersburg and Moscow are engaged in producing some of their own food and that 10 percent of the area of the largest city in the world, Tokyo, is dedicated to food production (Millstone and Lang, 2008: 19).

Relatively few local authorities have recognized the significance of urban agriculture in the local economy as source of food, and potentially of other materials, or as a source of income and employment. Those that have done so have sometimes implemented programmes to make use of vacant land in cities and promote peri-urban agriculture to these ends. This is a subject that should be attracting considerably more attention in the framework of LED and employment. It was noted already in the previous chapter that urban agriculture, far from being a continuation of farming on the part of rural-urban migrants, is predominantly an activity of well-established urban citizens, both poor and middle class. Local governments and their fellow operators in the field of local development would do well to engage with relevant institutions such as the Ministry of Agriculture and NGOs active in the field, as well as with those already active on the ground, in order to develop a coherent, employment-intensive strategy for the sector.

Box 6.6: Urban Farming in Cuba and Venezuela

With the collapse of Communism in the Soviet Union, Cuba, which had hitherto received energy and other resources from the Soviet Union, was thrown back on its own resources. Because of a shortage of agrochemicals, food production declined and the country was on the verge of famine, although the crisis was initially contained through the efficient distribution of what food there was. Experiments had already been made in intensive organic vegetable farming, including hydroponics, to satisfy urban food needs and the new situation drove this on to become a major mass movement. Among the initiative which this inspired was a proliferation of urban farms to produce the food no longer available from imports. Production was organic by necessity, due to lack of agrichemicals. The government soon recognized the value of what was happening and turned to a comprehensive programme of support. The Ministry of Agriculture led the process but finding and appropriating land and rooftops to farm, as

well as the development of local innovations, was undertaken at the sub-municipal level by designated coordinators. By 2005, 50 percent of Cuba's vegetables were being produced through urban and peri-urban organic farming and in Havana this proportion even hit 90 percent.

Having seen, during a visit to Havana, just how successful this turned out, 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. Subsidized by the government and with the operators organized into cooperatives, these gardens provide a significant amount of employment for the hitherto poor and unemployed, with a focused recruitment of unemployed youth in informal settlements.

Sources: Koont (2009) and Feeding Ourselves: Organic Urban Gardens in Caracas, Venezuela - <http://towardfreedom.com/home/content/view/869/>

Materials used in constructing urban buildings and infrastructure, particularly bricks, are still being produced within urban sub-regions of many cities, often causing serious damage to the local environment. Addressing these problems and bringing the building professions and industry into the discussion could, in many urban regions, return a significant amount of the materials needed to build and maintain the city back to labour-intensive local production that will also start to overcome the problems of the energy-intensity of current trends in building materials production. 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 by the CIDB revealed that a masonry house may generate 3.5 times more employment than an equivalent precast concrete house (at approximately the same cost).

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.

The supply of energy resources to cities will become increasingly problematic in the coming years with the decline in petroleum and, soon thereafter, other fossil fuels; the reduction in the use of these might even be promoted within the framework of greenhouse gas mitigation programmes. Local authorities and those working with them should already be developing coherent strategies to mount crash programmes, in order to reduce the demand for these and to replace them with renewable sources. These programmes will involve both technological interventions that will be again discussed in the following sub-section—insulating buildings, installing solar water heaters, building combined heat/cooling and power systems, measures to diminish the demand for motorized transport and promote public transport systems—and a renewed demand for biofuels. The increase in biofuel production could generate environmental problems and certainly escalate competition for the land needed for food production and other agro-products. This will be an important area of negotiation among stakeholders involved with the local authorities to achieve an optimal use of peri-urban land and an employment-intensive system of local energy production and supply.

Finally, insofar as efforts are being made to source certain manufactured products more locally, consideration should also be given to sourcing the raw materials locally. This could include timber, material for making utensils and for making textiles (cotton, flax, hemp). Again there will be competition for land to produce these but they should, nevertheless, enter into the strategic planning process for the local production of primary

materials and the system in terms of the application of machines and labour that will be preferred.

Manufacturing

Much of today's world produces more than is required to satisfy our strictly defined basic needs, or even a modestly comfortable existence. In the previous chapter, a suggestion was made that our world is *over-productive*, delivering goods readymade when they could be made with more personal care and attention, and also managing to do this with fewer and fewer people employed to do it. Of course this is also perverse in that it still fails to produce sufficient amounts of what is needed to satisfy the modest requirements of much of the world's population. What an employment strategy could aim to achieve is to bring back much local manufacturing to produce, at affordable prices, all the basic materials and products needed for a modest existence for all and to extend employment, in order to ensure that this is produced; the income from this employment will be sufficient to afford such a modest but comfortable life.

In the above discussion of data to be collected, it was pointed out that information on consumption patterns should be included. This is usually collected in household surveys and could be usefully augmented through focus group discussions. Usual categories include numbers of households possessing television sets, telephones, vehicles, washing machines and so on, which clearly cannot be produced in every city, although the assembly of these has become widely distributed in recent years. The aim here would be to find answers to questions about what is being consumed, in terms of satisfying 'modest needs,' and the extent to which these are not being satisfied. Many unrequited needs could, however, be satisfied by the extension of existing local industries or otherwise by what is referred to above as the 'recolonization' of productive sub-sectors, with the dual aim of balancing the economy and achieving high levels of decent work.

This might be considered to be a goal of the LED strategy of cities but how to go about this should clearly be formulated from where cities start, in terms of present industrial structure, and the skills and capacities of the workforce, both manual and organizational. The five bullet points of the above sub-section proposed the principles of moving up the value chain, which means building on existing production capacities, producing to satisfy unmet local needs required for a modest life and also recolonizing local production.

Of course in many cities, particularly the smaller ones in poorer countries, the absence today of even basic production—and hence the skills to produce—because of increasing reliance on cheap imports has reached extreme levels. And yet, in smaller, poorer cities it might actually be easier to move along this path where the planning process is not faced with major interests in the local economy who may not see this strategy as being in their interests and have the power to dilute or even undermine it. The issue here, as discussed in the following section, will be to design and execute the decision-making process in a way that as many win-win situations as possible are presented, and that a consensus can be reached on a way forward that can be seen as being in the general interest of citizens but does have a pay-off for those who are gaining from the currently less than satisfactory local production system.

It is difficult *a priori* to identify which sub-sectors should receive attention and at what stage. However, from the foregoing discussion it would seem that food processing would be an early candidate, using locally produced ingredients to produce foods that satisfy local traditional—or new—tastes. A second early candidate would be building materials. A third would be household goods and a fourth would be to start the recolonization of the textile and apparel industries that still exist in very many cities. In a few cities this could be integrated into—and in others connected with—the massive

international production and marketing machine. On the other hand, the local authority will have its own priorities in terms of its need for materials and components for infrastructure development; priority might also be given to the local production of energy—and possibly other environmental—technologies in the framework of pro-active energy policy initiatives. Indeed, right from the start, the issue of technology and skills development should be part of all the initiatives and, as discussed further below, the kinds of enterprises that will undertake these activities will have to be identified and the challenge of how they will be capitalized will need to be addressed.

Box 6.7: Jordan's Social Productivity Programme: Integrated Pilot Projects in Food Processing

The first Iraq war led to many thousands of Jordanians who had been working in the country to return to Jordan. This precipitated a dual crisis of loss of remittances and a large addition to the ranks of the unemployed and as a result, the IMF and World Bank were asked for their assistance. The World Bank helped with the Social Productivity Programme (SPP), consisting of various components including restructuring the social security system, improving local infrastructure, training various actors and providing small grants. In addition, it was decided to finance five integrated pilot projects in different parts of the country.

These were administered by NGOs, which started by bringing together a range of stakeholders in the selected neighbourhoods, in order to discuss what kind of initiatives they might undertake that would promise to generate employment on a sustainable basis. In all cases the decision was to found an enterprise as a cooperative, within the framework of a new national law on cooperatives. The question in all cases was: How do we build on current local economic activity and, at the same time, serve local markets, which are seen as local populations and, in two cases, tourist markets? The choice in most cases fell upon food processing, ranging from dairy products to a meals service and, in one case, the rehabilitation of a local irrigation system. The goal was to show that local efforts can lead to self-sustaining enterprises that serve local needs; moreover, the programme was subsequently extended to a much larger number of neighbourhoods under the government-funded Enhanced Productivity Programme (EPP).

Source: GTZ, 2004.

It is necessary, at this point, to emphasize the problematic of appropriate technology. As discussed in several places in this Report, the decline in manufacturing employment everywhere has largely resulted from the introduction of increasingly sophisticated machines. It is important for the workers to regain control of the work process through the recolonization of manufacturing. More labour-intensive manufacturing does not mean abandoning machines but rather selecting or developing technologies that give workers control over what they produce in a way that can be fulfilling as work without being too arduous or monotonous and all the time maintaining a reasonable level of productivity (Cooley, 1978; Willoughby, 1990). The development of appropriate technologies for each of the subsectors generated in, and promoted by, the plan will be an essential correlate to investment in enterprises, in order to produce in these fields

The Service Sector

As discussed above, the service sector has, in the vast majority of cities in both the developed and developing world, become the dominant provider of employment. Much of what is done by way of earning an income in this sector might, however, be called into question in terms of its social usefulness, whether in the form of real estate and banking services in richer countries or informal street trading in developing countries. In the end, the effect is the same in the sense of the service sectors performing a redistribution role while certainly some of these services are vital to the wellbeing of the citizenry and the achievement of the Good City. However, in developing countries, much, if not most, of service employment cannot be regarded as being what people desire or deserve but is, in fact, all they can do to earn some kind of income with which to survive in a globalised world run on the basis of money. An important opening point worth noting is that if more employment were to be provided in the primary and secondary sectors, the pressure on citizens to find anything to earn an income could be lessened with, at the same time,

‘tightening labour markets’ in the service sector that will lead to upward pressure on wages and salaries and hence higher incomes all round.

Indeed, initiatives to rethink and reorient the local economy as a whole, and what people are employed in to earn their living, is due for wider and deeper discussion that necessarily opens up when it comes to the issue of service provision. This might well start from determining what would better serve citizens’ needs by way of services and consider how these might be improved in the sense of earning better incomes, providing better security and working conditions, and to be more productive, in the ordinary sense of the word, and also of a better quality. All of these are, in fact, closely connected. The overcrowding of sub-sectors in the informal economy today leads to workers being under-employed as there is too great an offer of services for the size of the markets. Clearly, if workers in the informal economy cannot earn enough they cannot accumulate the capital (assets) necessary to improve the quality of the service they provide or the conditions in which they work.

Very few local authorities have a positive conception of what is happening at the level of the informal service economy. Street hair-cutters, traders, snack sellers, bicycle repairers, etc., informal transport operators and waste-pickers in the streets and at dump sites; in most cities these are at best tolerated and ignored, sometimes harassed or, through ‘urban improvements,’ are simply pushed aside. And yet many of these services are socially useful, indeed vital, not only in terms of the poor serving the needs of the poor but also in providing cheap services to the formal economy. Hence, these should be supported by local authorities as legitimate activities comprising often a significant, even substantial, component of the local economy. We can see a start to this where, in contrast to many cities in which street traders find themselves arbitrarily cleared from streets, a few local authorities are working with the traders and providing locations for them to market their wares (the most famous and successful history of this having been Singapore).

Waste recycling systems are elaborate in terms of organization and although waste pickers are generally becoming more self-aware and self-assertive through organization (Medina, 2007), there are still relatively few local authorities that have a positive view of their activity. The integration of waste pickers into the waste management system as a whole would achieve greater efficiency in terms resource recovery and the elimination of the poor working conditions—where waste is predominantly recovered at dump sites—by moving the recovery process upstream as house-to-house recovery, even buying waste (see Box 4.6). Local transport is also a significant source of work ranging from driving pedicabs, through jitneys and taxis to minibuses (Servero and Golub, 2007). This works more or less poorly to a point of crisis in many cities through pollution and traffic congestion and is, therefore, in urgent need of rationalization.

Unfortunately, in all these cases, improvements in working conditions and the efficiency and ambience of the city are more likely to reduce rather than create employment, and it is elsewhere in the service sector—as well as the primary and secondary sectors discussed above—that most new jobs should be sought. Where ‘rationalization’ is undertaken, local authorities need to have a positive attitude towards those already operating in the sectors in question and ensure that they are, as far as is reasonable, incorporated into the (re)arrangements.

In most cities in poorer countries, education and health services provide little employment and a poor service that even the poor cannot afford. Indeed, a range of social support services, including child-minding and the care of the aged and disabled, are generally underprovided or not provided at all.

Certainly, if the resources were there to train and pay more workers in these areas, with an eye towards relevant curriculum development, their work could be expected to improve the lives of poorer citizens. There are three ingredients to this:

- A consciousness among the population that these services are needed and that it might be expected that society provide these.
- Local authorities and, in parallel, civil society organizations, orient themselves to this demand and find ways of providing them or helping the citizenry to organize them on their own behalf.
- Establish relevant institutional structures to support and develop these 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)

The provision of many of these services is seen as the responsibility of governments and although in low-income countries these have never been very adequate—and have often been further frustrated by structural adjustment policies—governments do continue to play a role. However, traditional community and religious organizations also used to, and sometimes continue to, provide some of these services.

Even in some lower middle income countries, the orientation of the citizenry is strongly towards obtaining these services—particularly in education—and they are prepared to spend significant amounts of meager incomes to obtain them, so leading to the proliferation of private providers of these services. Meanwhile, increasing discussion at the national and international level on local development is focusing on ways and means to construct community-based welfare services and local authorities need to become attuned to these proposals and initiatives as they could, with the assistance of local authorities—less in providing finance than facilitating self-organization—become significant employment sectors in the ‘social economy’.

As discussed in the preceding chapter, life in cities is not only about work but also about places where people should be able to enjoy living. This means that the city should have entertainment and cultural offerings available for all. For some this is employment and while local authorities in Europe have come to support a wide range of cultural manifestations that employ significant numbers, in developing countries, local authorities should be developing a similar focus. This does not necessarily mean large investments in heavyweight museums, galleries and opera houses but can mean no more than encouraging independent manifestations for which the population—and tourists—are prepared to pay and which can bring life to the city simply as a good place to be.

6.8 Improving Productivity and Working Conditions in the Informal Economy

It was noted earlier that few local authorities pay adequate attention to the local informal economy, the poor conditions suffered by those working in the informal economy and the fact that almost everywhere this is where the majority of the workforce is forced to work, largely as a consequence of the lack of formal employment. Local authorities, in developing a policy framework for local economic and employment planning, need to have a two-pronged approach to addressing these problems. The first is to ensure that priority is given to 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

formalizing hitherto informal work, i.e. improving security and the 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 should focus specific attention on the informal economy, mapping out initiatives that can be taken for different categories of informal workers—focusing particularly on the most disadvantaged—that will alleviate their circumstances. Measures might include: the adoption of a regulation concerning specific local government policy towards the informal economy and specific regulations relating to particular groups; the provision of basic ‘life training’; the 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; the 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, 2007).

6.9 Integrating Women and Youth

Poor living conditions in slums, the lack of water, sanitation and electricity, pollution and precarious housing, affect women more than men. Women also bear the burden of raising children under the most appalling conditions. In UN-Habitat’s *The State of the World’s Cities* (2004), all of the standard indicators – poverty rates, healthcare, education, participation in the labour force and participation in the political process – reveal the extent to which urban women are worse off now than they were two decades ago.

In urban areas as in informal settlements, up to 50 per cent of households are headed by women, who typically rank among the poorer segments of the population. High levels of unemployment, unstable sources of income and the predominance of low-paying jobs characterize women’s situation in the labour market in many cities (UN-Habitatt, 2004).

Working women in all age groups depend on the informal economy more heavily than men. However, the number of working women and their economic contributions are likely to be underestimated because they engage in home-based work and street vending, activities which are the most difficult to document.⁵¹ Often, they choose income-earning options that are compatible with childcare and domestic responsibilities. Many women thus perform their economic role from inside or near the house, processing food, selling items,

⁵¹ Women in Informal Employment Globalizing and Organizing, see <http://www.wiego.org>

etc. Even within the informal economy, women tend to be concentrated in lower-return segments than men.

The disproportionate concentration of women in informal employment results in a gender gap in earnings and in the benefits and protection afforded by work (Chen, 2004). While there is no simple relationship between working in the informal economy and being poor, the link, especially in the lowest-return activities, is stronger for women than for men. Improved access to formal employment would clearly help urban women and women slum dwellers in particular to improve their own and their families' living conditions. Therefore, a gendered approach to employment generation is effectively a pro-poor approach. (Chen, 2004)

Box 6.8 Gender aspects of infrastructure works: enhancing women's participation and benefits

Having the primary responsibility for childcare and domestic work, women spend more time (than men) in and around the home. Therefore, local infrastructure (drainage, flood control, water wells, proper sanitation, schools and health clinics ...) is of particular importance to women and their children. It is crucial that women's voices be heard when planning and prioritising local infrastructure works. The returns of a gender focus can be high in terms of project performance, improved maintenance, household well-being and women's empowerment.

Given the opportunity, many women are interested in the remunerated job opportunities offered by infrastructure works, to meet financial obligations in the household, improve their income or ensure their family's subsistence. Experiences demonstrate that deliberate efforts to encourage women's participation can have considerable success, to the extent that women have sometimes been found to outnumber men amongst the construction workers hired.

Furthermore, special efforts should be made to develop women's capacities and skills to take on more technical and/or supervisory functions, enabling them to move beyond the unskilled labour status. Many projects report that women respond very well to training opportunities, and that training has allowed them to take on more challenging (supervisory) and better paid functions, achieve higher levels of self-confidence and pride, and in some cases to establish their own construction enterprises and become sub-contractors for maintenance and construction works.

The unemployment of young people is a pressing economic and social issue in both developed and developing countries alike. As much as 85 per cent of the world's youth live in developing countries, and in many economies, young people are more than three times as likely as adults to be out of work.

This situation has broader consequences: youth who have limited job prospects and are frustrated about their future are more at risk of falling into personally and socially destructive activities. In turn this deters investment and undermines efforts to start a process of local economic development. The reverse is also true:

“Decent work for young people unleashes multiplier effects throughout the economy and society, boosting investment and consumer demand and ensuring more stable and cohesive societal ties across generations...” (Resolution concerning youth employment, International Labour Conference, 2005).

The Youth Employment Network (YEN) High-Level Panel recommends youth policies and action based on four principles, the four “Es”:

- - **Employability:** invest in education and vocational training for young people, and improve the impact of those investments;
- - **Equal opportunities:** give young women the same opportunities as young men;

- - **Entrepreneurship:** make it easier to start and run enterprises to provide more and better jobs for young women and men;
- - **Employment creation:** place employment creation at the centre of (macro) economic policy.

Often, child labour exists alongside youth unemployment. Where children are at work rather in school, the labour supply of young people goes unutilized or underutilized. Many young people above the minimum working age and below 18 years do not have a smooth transition from school to work. With inadequate access to education, training and apprenticeship matched to local labour market needs, these young people become vulnerable to the worst forms of child labour. In fact, child labour exacerbates the problem of youth employment. Dropping out of school at an early age leaves children less prepared to find productive jobs later in life and increases the risk of falling into a poverty trap consequently becoming unable to provide livelihoods for their families and education for their children.

City governments are on the "front lines" in the battle to create and protect jobs for youth. In planning for urban development, it would be useful for local authorities to be aware of the policy options available to them for promoting youth employment as well as good practices nationally and internationally. There is increased awareness that productive employment and decent work for young people requires a coherent approach that articulates supportive policies centered on two basic elements: on the one hand, an integrated strategy for growth and job-creation and, on the other, targeted interventions to help young people overcome the specific barriers and disadvantages they face in entering and remaining in the labour market. The *Guide for the Preparation of National Action Plans on Youth Employment* (ILO, 2008), while developed for national governments, can also be used by city governments to identify policies and plan action in

Box 6.9: Checklist of main policy areas relevant to youth employment

<i>Economic and social policies to promote equitable growth and expand the demand for labour</i>	☐ Fiscal policy, monetary policy and exchange rate ☐ Trade policy ☐ Financial policy ☐ Investment policy and infrastructure ☐ Sectoral policies (e.g. agriculture, industry, services) ☐ Social policies (e.g. health, housing)	EFFICIENCY AND EQUITY
<i>Education and training</i>	☐ Literacy and basic education ☐ Higher education ☐ Initial vocational education and training, including work experience ☐ Workplace and lifelong learning	
<i>Enterprise development</i>	☐ Enabling business environment ☐ Micro, small and medium-sized enterprise development, including cooperatives ☐ Self-employment and youth entrepreneurship, including micro-credit	
<i>Labour legislation and labour market policies and programmes (LMPs)</i>	☐ Labour legislation ☐ Wage policy ☐ Active LMPs (e.g. employment services, labour market information, public works, employment subsidies) ☐ Passive LMPs (e.g. unemployment and social assistance benefits)	

Source: Guide for the preparation of National Action Plans on Youth Employment (ILO, 2008),

favour of youth employment. For an example, see the checklist below:

6.10 Local Development Planning with Employment Generation at its Centre

We have discussed at sufficient length the many kinds of initiative that are, or could be, undertaken in city regions to generate productive employment and decent work for all, and we now present proposals for the organization of these initiatives. This chapter opened with a discussion of the way in which the development of such initiatives should be a participatory affair, initiated and coordinated by local authorities but with responsibilities for developing different initiatives allocated and taken up by different stakeholder groups and local institutions.

It will have been noted that most of these initiatives are supported, and even initiated, by external development agencies and although such support may be elicited relatively easily, what is being called for here is long-term, locally-owned commitment. City Development Strategies (CDSs), which would be expected to be supportive of more coherent employment-generation strategies, have now been produced in over 100 cities worldwide, many of which have triggered more coherent approaches of municipalities towards their own self-development. In addition, assistance has been given by many international development agencies for one-off projects or in promoting particular kinds of initiative such as the establishment of Local Economic Development Agencies (LEDAs)(ILO, 2000) that are similar and related to the kind of strategic planning process outlined here.

Earlier in this chapter, we proposed procedures for initiating a participatory activity to determine an overall vision, and related SWOT analysis, in order to provide the basic motor of a local planning process aimed at attaining high levels of decent employment to satisfy the needs of all who are seeking work. We then outlined a participatory procedure for establishing an appropriate information base. Here, we move to the next stage, presenting a procedure to establish a participatory planning process capable of determining what initiatives can feasibly be undertaken locally and facilitating the process of bringing these into being.

The visioning and SWOT exercises should already have brought together stakeholder groups and interests who will become actively involved in the employment planning process to follow. We can expect the city authorities to play an important coordinating role, and an early decision should be taken on the way in which peri-urban, local and regional authorities should be involved from the outset. Encouragement of the formalization of relations between key stakeholder groups into a legal entity could then follow. Participating organizations will include: employer's organizations such as chambers of commerce, industry and banking; trade unions; representatives of sectors of the informal economy and home-workers; relevant non-government/civil society organizations, particularly those representing women's interests; academic institutions; and perhaps others as determined through the asset mapping exercise discussed above.

Local authorities everywhere have various planning responsibilities, including budget planning and land use planning and often also local environmental planning and maybe other dimensions. There is usually a lack of coordination between these legal procedures that have to be followed but, at the same time, in many countries a fatal lack of effectiveness in implementation as a consequence of the widespread 'informality' of development means that this is inherently beyond the control of governments. Nevertheless, any initiative aimed at local economic and employment planning should strive to coordinate directly with and, if possible, integrate with the existing planning

processes such as participatory budgeting, a City Development Strategy process or Local Agenda 21.

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.

The planning process could be steered by an Economic Development and Employment Forum (EDEF) that could initially be ad hoc (task force) to progressively become permanent according to staff resources available and sustained funding as well as commitment for the initiative. In any case, it 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. Clearly, if a Local Economic Development (LED) process is underway, it could be transformed with new dimensions to its remit.

The planning process might actually take place within one or other of the participating organizations—the local authority or an ‘Urban Observatory’ or institute⁵² or a university—or the EDEF could gain an independent secretariat with its own professional staff or staff seconded from member organizations. Two types of planning initiative should be organized: short-term action plans aimed at specific actions that can show, over a short time period, the efficacy of such planning; long-term strategic plans that indicate how interventions will be developed in various sectors and the means to be used to implement the plans. In all cases, plans should be made according to participatory methods which, by now, have become common practice in planning (Healey, 2006). Essentially, this means that all elements of the citizenry who will be affected by planned initiatives should be involved in working up the plans and in plan implementation.

The structures and procedures outlined here are relatively complex and will require coherent and effective action on the part of the coalition of forces and interests and especially local authorities. Compromises may be necessary as a consequence of the lack of financial or human resources. This may result in the lead being taken by an effective local NGO or the business community or a university department. Such a compromise might be effective in starting the process of planning and action but local authorities and other key actors should always be mindful of preventing the initiative from being hijacked by a particular set of interests for their own purposes. The strategic goal of a rounded local economic development that generates decent employment for all who want to work should remain in the forefront and as the initiative develops, new steps should always be oriented towards bringing this goal closer.

⁵² Such institutions already exist in many Latin American cities.

Box 6.10 Inclusive economic restructuring: the case of Osasco, Brazil

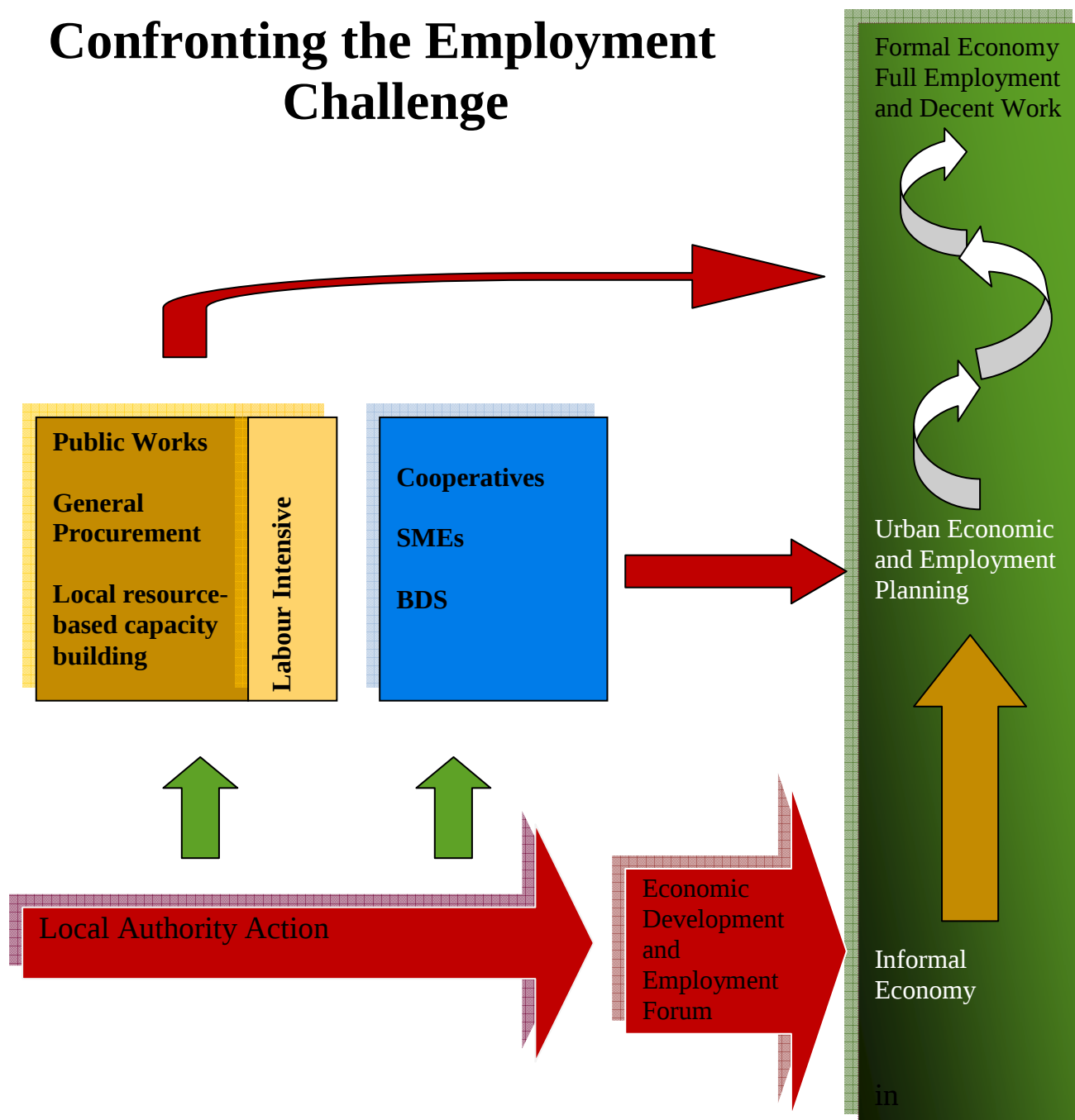
Due to industrial restructuring, the city of Osasco lost some 20.000 industrial jobs during the 1990s, open unemployment increased from 11.6% in 1985 to 18.6% in 2004, and the share of formal employment in total employment decreased from 58.9% to 44.7% over the same period.

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.

Confronting the Employment Challenge



6.11 Legislative and Regulatory Framework to Promote Local Employment

Matters dealt with in this Report clearly touch on a wide range of existing legislation and regulatory functions that vary considerably between countries. Here, we will only point to strategic issues and note, in general, that local authorities mounting new initiatives of the kinds discussed in this Report will, at each step, need to consider the legal implications of what is being proposed and ease the way forward sometimes by superseding existing—and sometimes adding new—legislation and ordinances. Regulatory functions will also need to evolve.

What may be immediately apparent with some of what has been discussed earlier in this Chapter is that although it is in line with the international trend towards decentralization and democratization, it runs counter to the international policy framework

favouring open markets and free trade. The kinds of initiatives spelled out in terms of local procurement and rebuilding local production implies sheltering local enterprise against aggressive advertising by highly capitalized external enterprises and open competition and promotion of local enterprise and labour.⁵³ Therefore, the feasibility of these proposals depends for an important part on national policies and international agreements (WTO or regional agreements) as regards government procurement and the protection of domestic enterprises.

Getting down to the detail, we would first remind readers of two areas pertaining to legislation and regulation that have been discussed earlier in this Report. The first, discussed in Chapter Three, concerns local government procurement. Here, the call is for local authorities to formulate contract conditions on their purchases and particularly in infrastructure construction and housing (upgrading), in ways that will maximize the use of local materials and labour. The case of South Africa was discussed, where a strong national policy is in place to assist local governments to procure goods and services in ways that maximize the services of local small and micro-enterprises, the use of local labour and labour-intensive methods on construction contracts (RSA, no date). This could become a model for other countries and local authorities wishing to emulate this will need to negotiate with national governments—probably through their local government associations—to facilitate this.

The second area of regulation, discussed in Chapter Four, concerns the registration of businesses where the general aim is to streamline the process, in order to encourage the formation of formal businesses. This is a policy that is gaining widespread support and is to be encouraged. There are a number of additional areas in which local authorities would be expected to develop local legislation and ordinances and initiate new regulatory functions that follow from the proposals and suggestions made earlier in this chapter. Here are the main considerations:

- Local legislation and ordinances will be necessary, in order to initiate and undertake the participatory planning processes envisaged. These should facilitate, and provide a formal status to, the LEDA or whatever institutional arrangements are decided upon, should these be outside the existing institutional framework. The planning process, once determined, will also require a local ordinance giving this a formal status. It is unlikely that this will be able to happen unless the decentralization processes has advanced sufficiently to empower local authorities to create such planning processes and so, in all likelihood, local authorities will need to involve national governments in facilitating local authorities to plan in this way.
- The orientation of the local economic development process towards the ‘re-colonization’ of the manufacturing sector implies the need for measures to shelter local enterprise and provide a facilitatory basis for local economic development and employment generation that *prima facie* contradict free market principles. If the EDEF is to go beyond simply being imaginative and encouraging would-be entrepreneurs to move into businesses oriented to satisfy local markets, it will be necessary to implement proactive mechanisms. These might include intervention in advertising to promote local products at the expense of imports or it might orient the local financial incentive and taxation system to favour local producers who are producing for local needs, over non-local companies. The EDEF should discuss this with the local authority, in order to develop relevant local regulations. Local authorities, perhaps acting through their municipal associations, will then need to

⁵³ The WTO does have an agreement on government procurement which covers market access. However, this is a plurilateral agreement, which means WTO members are free to join or not join. Hardly any developing country has joined this agreement.

negotiate with the national government to promulgate national legislation aimed at facilitating the implementation of these policies.

- Local authorities should then help to develop the basis for a richer social economy through local legislation and regulation to provide an overall facilitatory umbrella and/or be oriented towards specific areas of activity.
- As discussed in Chapter Three, national government has a number of important roles to play in promoting local job creation. Support will be needed to make headway, with some of the initiatives being proposed earlier in this Report, including the facilitation of local governments to be more proactive in local economic development and employment promotion and, more contentiously, to develop and implement protection measures for local enterprises, which are producing to satisfy local needs. Local governments might collaborate in approaching national governments to this end and it is strongly recommended that in countries where there are well-developed municipal associations these be brought into play to negotiate on behalf of the municipalities wishing to start a more assertive local development process oriented towards employment creation.
- There is a clear danger in what is being discussed here of an escalation of what earlier was referred to as the 'rule paradox'. Legislation and regulation can very often be used as a tool for corruption of various kinds, including the protection and promotion of powerful local interests at the expense of those who are supposed to benefit and providing situations open to extortion (illegal payment for permission) ,and so on. The policies and proposals being suggested here will need to be accompanied by concerted efforts to achieve good governance. The participatory processes proposed are just one mechanism to give a voice to those who are being subjected to corruption, and this would need to be accompanied by transparency in all initiatives resulting from the legislative and regulatory framework being proposed here.

6.12 Financing Local Employment Planning Initiatives

In discussing the financing of the kinds of initiatives outlined earlier in this chapter, it is necessary to distinguish two things and then some components within these. On the one hand, the planning process needs to be funded. On the other, the change in direction and the new productive enterprises need to be capitalized. A third issue, however, is how to finance an expanded social economy.

In principle, it would be expected that local government be responsible for the local development planning process. Indeed, local authorities everywhere do sometimes carry out planning activities under this heading, to mean planning the use of that part of their budget that is used for development purposes, as opposed to ongoing operating costs. Above, we have referred to a new initiative in local planning under the title of local development planning, meaning local economic planning but extending to other initiatives relevant to the central aim of generating decent employment and ultimately achieving the Good City. Simply referring to this as a planning activity would seem to imply that it would be the responsibility of the municipality to finance this.

The first reaction might be to recall that local authorities already have more than enough activities that need to be funded and cannot, therefore, take on more responsibilities. In Chapter Two, it was noted that in all too many countries, the decentralization of functions has not been adequately followed by the decentralization of finance, which means that even if municipalities are receiving more funds, these are not adequate to cover the additional functions that they are expected to perform. Nevertheless, local authorities should take on a more concerted local planning responsibility and should be conscious of this as a policy priority. Furthermore, the planning initiative outlined above is aimed at addressing what is increasingly a crisis for local authorities in the lack of employment and the consequences of this discussed in the previous chapter.

However, there is a further argument, which is that the kind of participatory planning proposed would also mean that the financing of the process would be shared by the participants. Thus some of the finance would come in kind, in the form of seconded staff and facilities such as educational establishments carrying out surveys and processing the data. Local businesses should also be expected to assist with finance, perhaps through a small levy. It is important to note that the planning process itself is not expensive, the major concern being the serious commitment of the parties to the planning process that should be seen as being in their interest for local development and the improvement of the social and economic health of their city.

The financing of the initiatives emerging from the planning process might be expected to come from conventional sources. Until last year, some optimism might have been justified in thinking that finance could easily be found for new commercial investments, even those carrying a relatively high risk. Today, however, the prospects for productive investment are looking bleaker and are expected to continue to be so for some time to come. Nevertheless, conventional sources of finance will continue to function and the planning process should include developing the capacity to attract finance for plan implementation in the form of productive enterprises and cooperatives that will provide work.

Until recently, little consideration had been given to the growing importance to individual families of remittances received from family members living and working overseas. Although remittances have been flowing from the rich to the poor countries for many decades, more recently these have grown in many countries to become an important—and not entirely unproblematic (Ghosh, 2006)—partially hidden source of local income and wealth.⁵⁴ Of course this always had some value as a source of local development insofar as it was spent on improving housing conditions and even when spent on consumption of locally produced goods and on local services. In the last few years, this has entered the consciousness of the international community, including in particular the World Bank and IFAD and, in some countries, the national policy process. Proliferating initiatives are appearing where migrants and diasporas are themselves clubbing together to generate pools of resources for community development back home. Meanwhile, 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.

Box 6.11: Remittances and Development – The Philippines Case

In 2007, the total amount of remittances sent by Filipinos overseas to families/relatives at home, as recorded by the Bangko Sentral ng Pilipinas (BSP), was US\$14.4 billion. The enormity of the amount has been noted in surveys on globalization and prompted one observer to remark on “remittances being the only bright spot in the Philippines right now”. Collective remittances from diaspora organizations for community development have been intensifying. ‘Hometown associations’ have increasingly promoted community development in their home countries, providing investments for local infrastructure development.

In the Philippines, the work of the Ayala Foundation USA Initiatives aims to “create opportunities that facilitate meaningful contributions of Filipino migrants in the United States to the Philippine social development initiatives” and exemplifies this emerging model of interaction between groups of Filipino migrants in a particular ‘host’ country and their ‘homeland’. Meanwhile, diaspora business and investment shows that the economic and social capital of diaspora groups can be tapped for the benefit of their homeland.

⁵⁴ There is a rapidly growing literature on remittances and development and two web sites that provide an ongoing flow of information: www.remittances.eu and www.ifad.org/events/remittances/index.htm

Overseas networks can widen market access of Filipino firms and SMEs exporting certain products and services. Diaspora-based investment instruments are also an emerging form of diaspora-homeland connection. Israel pioneered the harnessing of diaspora capital from 1951 to engage their Jewish diaspora, while India started to adopt it in 1991. By 2007, sovereign diaspora bonds issued by both countries reached \$35 to \$40 billion. In 2007, offers of diaspora bonds were initiated to overseas Filipino workers (OFWs) in Hong Kong through the state-owned Land Bank of the Philippines, with assistance from the HSBC. This is leading the government to consider issuing OFW bonds in 2009 to OFWs in other countries such as those in the Middle East where many more Filipinos are located.

Finally, knowledge transfer/exchange is another form of diaspora-homeland connection. It has been noted that the diaspora could also give in the form of non-material flows of knowledge, skills, connections, attitudes and values. In particular, knowledge transfer addresses the loss of skills and knowledge experienced by many developing countries as a result of the increasing immigration of highly skilled people. In the Philippines, the Transfer of Knowledge through Expatriate Professionals, the Balik Scientist programme and the Science and Technology Advisory Council are some of the programmes being implemented to engage highly skilled Filipinos living abroad in their homeland's development.

Source: Siar, 2008.

As a further important source of finance, it is to be hoped that Municipal Development Funds that have been spreading and consolidating will continue to make finance available to local authorities for infrastructure development and these should be explored for the availability of financial resources for related initiatives coming out of the planning process—such as energy conservation and renewable energy technologies—for which local authorities could take a shared or perhaps even a major responsibility. The planning process should also, in a more general way, explore with the municipality how the latter might use the local system of taxation, insofar as they have legal control to do so, to favour initiatives emerging from the planning process or to provide subsidies or bank guarantees for this purpose.

On the other hand, conventional banks will continue to be sources of finance for private enterprises and should be encouraged by virtue of their being party to the proposed planning process with a certain commitment to helping realize plan outputs. Micro-finance institutions have, in recent years, become well-developed in most transition and developing countries and can be expected to provide finance for small businesses that the planning process and municipalities will encourage and support to start and grow in particular sectors. Forms of 'social finance' should also be tapped and even helped to develop; these can range from community savings and credit circles through to savings and credit initiatives and institutions such as credit unions and other forms of cooperative banks and even local currency initiatives.

International assistance, including the IFIs and bilateral development agencies, may be sought to assist specifically in developing these financing mechanisms.

6.13 Orientation, Education and Training to create decent Employment for all who wish to Work

So far in this document there has been little focus on the crucial issue of orienting thinking and then education and training to build the kind of economic and social structuring processes that have been developed through this document. First of all, orientation and training will be necessary for local authority personnel and the leaders and policy makers and professionals who will implement the new planning and development processes outlined above. Encouragement should be given to latent talent, local assets in the broadest sense, to people with technological skills and potential financiers to accept and participate in the process.

However, at the other extreme local authorities should take responsibility for assisting the most disadvantaged—including new rural-urban migrants and those who, for whatever reason, are entirely lacking in education—to gain basic life skills in the urban context. This

is sometimes referred to as ‘non-formal education’ and includes basic literacy and numeracy education, as well as skills in making use of the facilities of the city including getting by in the informal economy.

In Chapter Four, there was discussion of training in entrepreneurship and then passing reference in Chapter Five to the issue of skills. We note the importance that the development agencies attach to the notion—originating in the early years of development policy and Schumpeterian economics—that development has its motor in an ethos of saving and investment and the emergence of an ‘entrepreneurial class’.

This strong emphasis on entrepreneurship and its economistic orientation easily forgets, in its extreme focus on ‘mechanism,’ what development is supposed to achieve by way of output. In particular, the human and social dimensions of economic development embodied in the creation and application of productive skills and decent work tend rather to be ignored. Thus *prima facie* we see the present results of economic development in terms of their negative social outcomes (growing unemployment and underemployment and spreading poverty and insecurity including violence) indicating that this orientation—without necessarily being entirely discarded—needs to be balanced with a more human and socially-oriented set of development mechanisms.

Box 6.12: 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 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, recycling and urban agriculture. The whole initiative is seen as an essential social learning process in alternative local economic development.

Just as an entrepreneurial orientation prioritizes what education and training is required—namely competitiveness and how to run a business—so an orientation towards a more rounded human and social development should help to establish a complementary set of educational and training priorities that will result in a more successful human and social development. We already mentioned that in the current recession there has been an increase in the numbers of cooperatives being formed, and they tend to last longer than other types of business. Cooperatives could therefore play an important role in an employment strategy based on local resources and local markets.

Box 6.13: 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,’ organize 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—are participating in the ‘Teikei’ system of purchasing fresh food from peri-urban organic agricultural cooperatives. But products available from the cooperatives cover most of the everyday household goods.

Training from this perspective would need to integrate the principles of cooperative local economic development already occurring in schools but with a strong focus on the main institutional actors.

This does not obviate the need for the kind of training carried out by Business Development Service providers—who should continue to train in such aspects as product and business development, packaging and marketing products and entrepreneurship training—although greater emphasis might be put on the initiation and organization of cooperatives rather than only micro-enterprises. More important is to establish a strong link between the local development planning process and BDS. A major weakness of BDS as currently organized is that it is largely left to the entrepreneurs to decide what businesses to start with little or no knowledge—individually or in the system—of what is more or less likely to work. Often there are unsupported prejudices that certain kinds of activities are ‘growth industries’ and so more likely to provide space for successful businesses.

The aim here is for the planning process to help orient choices for would-be cooperatives and entrepreneurs to choose their line of business and for there to be more coordinated support that might include the provision of ‘incubator’ space and equipment to launch the enterprises. This might be expected, on the one hand, to provide more security and hopefully also a higher survival rate at the same time as developing the industries that satisfy the principles of the plan to ‘re-colonize’ productive areas for export but, more importantly, to improve on the satisfaction of local needs, above all amongst the poor.

There is a widespread realization of the need, as a vital adjunct to local economic development, for relevant technical and vocational training and most countries possess such institutions. In many countries these are well-developed generally as national systems—many supported and, even founded, with the assistance of the ILO or other international development institutions—training in technical and managerial skills and in some cases matching universities in teaching more strategic skills such as languages. In poorer countries and cities an attempt is often made at least to train in such basic skills as food processing and preparation, garment making and finishing, the use of computers and so on, in the hope that someone will employ the trainees.

As with BDS services, an underlying assumption in the development of courses is that the trends in industries and skills in the emerging economy are known and so these are the lines for which training is provided; at worst, training is provided for skills that are relevant to yesterday rather than today. One significant improvement, while maintaining basic courses, is for the training institutions to develop skills in discussion with, and working closely with, entrepreneurs, in order to match skills to known and evident openings in industry and beyond and for the central government to link the development of skill training in particular fields to the policies for promoting particular industries.

Box 6.14: Linking education and training to economic development strategies

Box 5.1 discussed the problem of ‘skills mismatch’ that is being experienced in many developing countries and is leading to the anomaly of high rates of vacancies amongst formal businesses coinciding with high rates of unemployment and growing informal economies. Countries or cities that do not have a concrete long-term strategic policy on how they wish to develop and then pursue this consistently, even if realizing the importance of education and training, are reduced to providing this for some general notion of development that risks producing a workforce inappropriate to industries that do, indeed, develop the country. On the other hand, having a clear development strategy without a compatible educational and training programme will also inhibit development.

We can see the spectacular development of consumer electronics by industries in Japan; Republic of Korea; Taiwan, China; and Singapore. These are all strongly supported by targeted education and training programmes that have been put in place well before the economic boom that resulted from the development of these industries. Indeed, we might say that these programmes were a partial foundation of the success of these industries (Chang, 2007; Yoo, 2008, 2). By contrast, Malaysia, which had similar development ambitions but failed to underpin these with adequate investment in targeted education and training, found itself relying on the offshoring of other Asian countries and, by the late 1990s, with a severe skills shortage relative to the strategy it was trying to pursue (Yoo, 2008).

Clearly, the local development planning process outlined above will call for particular new skills. This will mean developing training to produce these skills. Again, this will not mean the abandonment of foundation courses in general skills needed for different categories of employment but rather less emphasis on training for hoped-for opportunities and more for opportunities that should open up through the implementation of the plan. Emphasis was placed above on the need to develop technologies appropriate for the kinds of productive activities promoted by the plan. Some cities in transition and developing countries will already have technical colleges that may be the same as, or separate from, vocational training colleges. In any case, at least one college should be given the task of investigating whether technologies appropriate for the sectors to be developed already exist or need to be invented and developed. This could, in itself, provide employment, as would the construction of the tools and machines for sale to the new enterprises that would use these to produce the intended products.

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 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.⁵⁵

The menu of policy options presented here, 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 these initial guidelines 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.

⁵⁵ For more information, see ILO-ITC Training Course on Public Employment Programmes; and www.economistsforfullemployment.org .

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